

JPRS-EEI-84-026

29 February 1984

# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

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29 February 1984

# EAST EUROPE REPORT

## ECONOMIC AND INDUSTRIAL AFFAIRS

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STATUTE OF THE CHAMBERS OF COMMERCE AND TRADE

East Berlin GESETZBLATT DER DEUTSCHEN DEMOKRATISCHEN REPUBLIK in German Part I No 6,  
8 Mar 83 pp 62-64

/"Statute of the Chambers of Commerce and Trade of the Bezirks; Resolution of the  
Council of Ministers of 2 Feb 1983" signed by W. Stoph, chairman, Council of Minis-  
ters of the GDR/

/Text/ Article 1

Status of the Chambers of Commerce and Trade

- (1) Chambers of commerce and trade operate in Berlin, the capital of the German Democratic Republic, and in all GDR bezirks. They carry the designation "Chamber of Commerce and Trade of Berlin, capital of the GDR" or "Chamber of Commerce and Trade of ..... Bezirk" (hereinafter designated chambers of commerce and trade).
- (2) Chambers of commerce and trade are legal entities and holders of the property values allocated them.
- (3) The bezirk council decides the domicile of the chambers of commerce and trade in the bezirks. The Chamber of Commerce and Trade of Berlin, capital of the GDR, is domiciled in Berlin, capital of the GDR.
- (4) Chambers of commerce and trade located in bezirks are subordinated to the bezirk council. The Chamber of Commerce and Trade of Berlin, capital of the GDR, is subordinated to the magistrat of Berlin, capital of the GDR.
- (5) The regulations hereinafter enacted for bezirk and kreis councils apply mutatis mutandi to the magistrat of Berlin, capital of the GDR, and the city districts of the GDR capital.

Duties of the Chambers of Commerce and Trade

Article 2

- (1) It is the duty of the chambers of commerce and trade by specialized guidance and active politico-ideological work to help their members' purposeful involvement in the accomplishment of the economic tasks in the region, conscientious exercise of commercial and trade operations and reliable fulfillment of specific state supply assignments.

(2) The work of chambers of commerce and trade must concentrate on the accomplishment of the following main tasks:

- a) Guidance and supervision of members in the implementation of the tasks assigned them on the basis of the economic plan and other decisions by competent local state organs, in particular to safeguard
  - . Supply tasks by private retail sales outlets (including restaurants) with or without commission trade contract,
  - . Service and production tasks by transportation, traffic and service enterprises as well as other small enterprises, including market gardens, and
  - . Fuel supplies by coal merchant enterprises;
- b) Cooperation in the drafting and realization of regional development conceptions, especially with respect to the network of commerce and restaurants;
- c) Encouragement of the intensive utilization of funds, the implementation of rationalization and modernization measures as well as of measures designed to improve efficiency, the most conservative handling of materials and energy;
- d) Implementation of measures for technical and political training as well as the spreading of legal knowledge and the consistent further education of members, including cooperation in the organization of professional training;
- e) Collaboration in committees and activist groups at bezirk and kreis councils;
- f) Organization of performance comparisons and safeguarding the application of the best technological and organizational solutions in the enterprises and facilities of members;
- g) Improvements in the working and living conditions of working people employed by members.

(3) The chambers of commerce and trade are authorized to request their members to provide data on the fulfillment of tasks assigned them. At the same time they may also request information from the partners of the member enterprises if that is required for the fulfillment of the tasks of members of the chambers of commerce and trade.

### Article 3

(1) Chambers of commerce and trade carry out their tasks on the basis of resolutions and decisions issued by the bezirk councils. They are involved in the management and planning of regional supply, service, transportation and traffic performances.

(2) To realize the supply targets and on the basis of the legal regulations on commission trade,<sup>1</sup> chambers of commerce and trade closely cooperate with the contract

partners of commission traders, the socialist wholesale trade and other cooperation enterprises of members.

(3) With respect to politico-ideological work among their members, chambers of commerce and trade cooperate closely with the committees of the GDR National Front, its secretariats and study groups for artisans and traders. They encourage the involvement of traders in political and intellectual-cultural life, the competition "beautify our cities and communities--join in!" and the process of the further realization of socialist democracy.

#### Article 4

Chambers of commerce and trade must draw up budget plans for each calendar year. These require bezirk council confirmation. The drafting of budget plans and the spending of money proceed according to bezirk council decisions on the basis of the framework of the inventory account of chambers of commerce and trade.

#### Article 5

(1) Chambers of commerce and trade prepare annual analyses of the results of their operations. These require bezirk council confirmation.

(2) Chambers of commerce and trade

-- Keep card files of their members and their trades, and

-- State their opinions on citizens' applications for the issue of trading permits.

#### Article 6

(1) Chambers of commerce and trade conclude standard wage contracts with the labor unions competent for the various branches of the economy. These settle the terms of wage payments and working conditions for the persons employed by members. Upon approval by the bezirk councils, they assign pilot functions to one particular chamber of commerce and trade.

(2) Applicable to all other standard wage contracts are the provisions of the labor code concerning general collective contracts.

#### Rights and Duties of Chamber of Commerce and Trade Members

#### Article 7

(1) Members of chambers of commerce and trade are citizens who are self-employed traders, and who have been issued a permit for the exercise of their trading operations by the competent state organs, in accordance with legal regulations.<sup>2</sup>

(2) With the approval of the bezirk councils, small trades chambers of commerce and the chambers of commerce and trade must arrive at an agreement on the appropriate membership of citizens who operate as craftsmen as well as self-employed traders. The criterion for decision is the respective preponderant activity.

(3) Following proposals by the directors of chambers of commerce and trade, the bezirk councils decide about the membership of legal entities in chambers of commerce and trade.

#### Article 8

(1) Members of chambers of commerce and trade have the right

- To request guidance and assistance by the chambers of commerce and trade within the scope of this statute,
- To collaborate in committees and consultative activist groups of the chambers of commerce and trade,
- To submit suggestions for the improvement of the work of the chambers of commerce and trade, and
- To use the cultural and social facilities of the chambers of commerce and trade consonant with the available opportunities.

(2) The members of chambers of commerce and trade are obligated,

- To observe the provisions of this statute,
- To actively cooperate in the accomplishment of the tasks of the chambers of commerce and trade,
- To provide the data requested by the chambers of commerce and trade, and
- On the appropriate dates to pay the assessments for the chambers of commerce and trade as per the Ministry for Trade and Supply's assessment order.

#### Article 9

##### Establishment and Operations of Kreis Branch Offices

(1) Chambers of commerce and trade may establish and close down kreis branch offices. Depending on local requirements, a kreis branch office may be set up to serve several kreises in one bezirk. The decision on the establishment or closure of kreis branch offices requires bezirk council approval.

(2) Whenever, with the approval of the bezirk council, a kreis branch office is set up for several kreises, the direction and supervision of this kreis branch office is up to the council of the kreis where the branch office is domiciled. This kreis council coordinates its operations in consultation with the other kreis councils.

(3) Kreis branch offices are integral elements of the respective chamber of commerce and trade.

(4) Kreis branch office plans of operations must be drafted on the basis of the assignments of the chamber of commerce and trade as well as the resolutions and

decisions of the kreis councils. They require confirmation by the director of the chamber of commerce and trade.

(5) Kreis branch offices draft annual analyses on the results of their work. These must be conveyed to the chamber of commerce and trade and the kreis council/councils.

(6) Kreis branch offices cooperate in the accomplishment of the tasks assigned the chambers of commerce and trade as per Article 3 Paragraph 3 and Article 5 Paragraph 2.

(7) The rights and duties arising from Article 8 for members of chambers of commerce and trade also apply to the work of the kreis branch offices.

#### Management and Operating Methods of Chambers of Commerce and Trade and Kreis Branch Offices

##### Article 10

(1) The chamber of commerce and trade is managed by the director on the principle of one-man management with collective consultation.

(2) The chairman of the bezirk council appoints and dismisses the director and his deputy.

(3) Managers of kreis branch offices are appointed and dismissed by the director of the chamber of commerce and trade following consultation with the chairmen of the councils of the kreises where the kreis branch offices are domiciled.

##### Article 11

(1) The director of the chamber of commerce and trade directs the implementation of the tasks of the chamber of commerce and trade in the bezirk. He works on the basis of an operations plan and an operations order. Both require confirmation by the bezirk council.

(2) The director of the chamber of commerce and trade is accountable to the chairman of the bezirk council.

(3) Managers of kreis branch offices of the chamber of commerce and trade are accountable to the chairmen of the kreis councils and the director of the chamber of commerce and trade.

(4) The director of the chamber of commerce and trade and the managers of kreis branch offices may establish temporary or permanent committees and consultative activist groups to assist with management operations.

(5) Chambers of commerce and trade use a round stamp with the inscription "chamber of commerce and trade of Berlin, capital of the GDR" or "chamber of commerce and trade of ..... Bezirk."



## Article 12

(1) Chambers of commerce and trade are represented in legal matters by their directors or, if these are not available, their deputies. Other staff members and persons may be assigned a power of attorney to represent the chamber of commerce and trade in legal matters.

(2) Managers of kreis branch offices are entitled to represent the chamber of commerce and trade in legal matters within the scope of their duties and responsibilities.

## Article 13

### Financing

(1) Chambers of commerce and trade are financed by assessment on the members in accordance with the assessment order determined by the Ministry for Trade and Supply. The assessments may be collected as per the regulations on the collection of pecuniary claims by state organs and state facilities.

(2) Chambers of commerce and trade are subject to obligatory audits by the State Audit Office.

## Article 14

### Concluding Provisions

This statute takes effect on 1 July 1983.

Berlin, 2 February 1983.

## FOOTNOTES

### 1. Currently in effect are

- Decree of 26 May 1966 on the Work of Private Retail Traders and Restaurateurs as Commission Traders of the Socialist Retail Trade--Commission Trade Decree --(GBI II No 68 p 429),
- Fifth Implementing Regulation of 15 April 1976 to the Commission Trade Decree (GBI I No 16 p 221),
- Sixth Implementing Regulation of 12 November 1976 to the Commission Trade Decree--Commission Trade in Solid Fuels--(GBI I No 44 p 503).

### 2. Currently in effect is the Decree of 12 July 1972 on the Encouragement of Artisans for Service and Repair Performances and the Regulating of Private Trading (GBI II No 47 p 541) in the version of the Amending Decree of 21 August 1975 (GBI I No 36 p 642).

### 3. Currently in effect is the Decree of 6 December 1968 on the Collection of Pecuniary Claims by State Organs and State Facilities (GBI II 1969 No 6 p 61).

IMPLEMENTING REGULATION ON CREDIT DECREE

East Berlin GESETZBLATT DER DEUTSCHEN DEMOKRATISCHEN REPUBLIK in German Part I No 6,  
8 Mar 83 pp 64-65

Third Implementing Regulation on the Credit Decree - Amendment to the First Implementing Regulation - of 31 Jan 83" signed by H. Kaminsky, president, State Bank of the GDR/

Text The following has been decided by way of amendment of the First Implementing Regulation of 28 January 1982 on the Credit Decree--Credit Grants to Socialist Cooperatives, Cooperative Facilities and State Enterprises of Agriculture, Forestry and the Food Industry--(GBI I No 6 p 133):

Article 1

Article 3 Paragraphs 1 and 2 now read as follows:

" (1) The amount and term of the loan are to be enterprise-related and dependent on the economic situation of the borrower.

The maximum term of the loan is

- |   |   |
|---|---|
| -- 5 years  | For equipment investments   |
| -- 10 years   | For investments for rational energy use and the use of unconventional energy sources  |
| -- 90 percent of the standard time of utilization but no more than 20 years | For investments designed to improve soil fertility for conservation and storage for the construction, rationalization and reconstruction of barns |
| -- 10 years   | For miscellaneous investments   |

The bank may grant exemption from repayment for the period of running in as established at the time of investment preparation.



(2) Interest discounts up to an interest rate of 1.8 percent may be granted for the special state encouragement of investments for

- Improving soil fertility
- Conservation and storage
- The construction, rationalization and reconstruction of barns, and
- Rational energy use and the use of unconventional energy sources.

Interest discounts must be tied to evidence furnished by the borrower regarding the observance of the parameters for the investment expenditure, the construction period and the profit as per the decision in principle."

#### Article 2

- (1) Article 3 Paragraph 4 is deleted.
- (2) Former Paragraph 5 now becomes Paragraph 4.

#### Article 3

- (1) Article 5 Paragraph 2 now reads as follows:

" (2) Further interest discounts may affect circulating fund loans if this is provided in legal regulations."

#### Article 4

This implementing regulation takes effect on 1 January 1984. It is to be used in all contracts concluded after it has taken effect.

Berlin, 31 January 1983.

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## AGRICULTURE REALIZES SUBSTANTIAL ENERGY SAVINGS

Budapest FIGYELO in Hungarian 19 Jan 84 p 13

[Article by Janos Mezei: "Billions from Savings"]

[Text] Improving the effectiveness of material, energy and cost savings is also very important in the food production branch. One of the reasons for this is that at the time the improvements which presently serve as the basis of our production were implemented material and energy prices were considerably lower than what they are today, therefore compared with international norms and the development standard of our food economy domestic material use is high.

As a result of programs designed to promote economy-mindedness, between 1978 and 1983 energy use in the food production branch has declined by 7 percent. This change has been the result of a drop in coking coal, gasoline, fuel oil and diesel fuel use and of an increase in the ratio of the fuel types used to replace them. Thirty-eight percent of all applications submitted seeking central funds aimed at promoting rational energy use, and 46 percent (380 applications) of the accepted and already awarded requests have come from this branch. The estimated total expenditures earmarked for these latter are expected to result in savings of about 77,000 tons of oil value savings per year.

### By-product Utilization

Generally speaking, during the past period our activities aimed at promoting rational energy use--including the competition system--have been successful. One cause for concern, however, is that our per unit investment costs required to attain savings and replacement of energy sources have been high.

The utilization of by-products generated by the food production branch has long traditions. Our farms utilize more than 85 percent of their animal by-products and wastes, mostly for feeding purposes, which constitutes 10 percent of their total protein needs. On the other hand, 50 percent of their by-products of plant origin is

ploughed under which while improving the organic material content of soils is not the most efficient form of by-product utilization. Straw and corn stalk enrichment (for the feeding of ruminants) and the energy-saving processing of slaughter house wastes into meat pulp have been only two of the considerable achievements of by-product utilization. In 1983 they produced 250,000 tons of the former and 44,000 tons of the latter.

Under the by-product utilization investment program 113 investments have been launched on the national economic level on the basis of a competitive system at an estimated cost of 8.4 billion forints of which 1.5 billion forints have been earmarked for the food production branch for the construction of 43 new facilities. Most of the investments have worked effectively in helping to achieve the projected savings, however, we still have not been able to create a common interest in every case between the processors and users, and the sellers and processors of waste.

Most producers have recognized the possibilities which stem from material-saving economic management. In part by way of organizational measures, and in part by making smaller investments they have achieved results that have considerably reduced material ratios in final products. In 1982 material savings amounted to 2.2 billion forints at current prices. In 1983 we may have achieved a material ratio reduction of as much as 3 billion to 3.3 billion forints, (thus eliminating the need for a whole series of jobs), although the branch's per unit material use for the year was marred by production losses caused by the draught.

#### Without Exsiccation

Of the expected total branch savings for 1983 MEM [Ministry of Agriculture and Food Industry] estimates that 2.9 billion forints will come from agriculture and forestry and 0.4 billion forints will be realized in the food industry. Sixteen percent of the total savings have come from the replacement of capitalist imports, 46 percent from material ratio reduction realized owing to technological modernization and 38 percent have resulted from actual reductions in material use. Of the 3.3 billion forints worth of material savings 2.4 billion forints will have a permanent national economic impact, and we will also see one-time cost reductions amounting to 0.9 billion forints (which depending on future farm decisions may repeat themselves in an increasing order of magnitude).

A significant part of our 1983 estimated savings has been due to per unit material savings attained by way of rational soil utilization. Changes in rational land use, the recultivation of about 2,100 hectares of abandoned farmland, the bringing under cultivation of 2,300 hectares of fallow ground, the expedient utilization of areas plagued by unfavorable soil conditions (by planting

30,000 hectares of fodder sorghum, Jerusalem artichoke and lupin) and the growing of almost 140,000 hectares of after-seed plants have made it possible for us to increase our sowing areas of commodity crops.

In plant cultivation the rational regional distribution of plant types of various growing seasons, the increase in the sowing area ratio of quick-drying strains of hybrid corn already resulted in considerable fuel savings (15,000 tons a year) in previous years, and the higher content values made possible by reduced exsiccation have helped to cut the material use of animal feeding. The use of energy-saving soil cultivation methods has not only meant oil savings but has also led to significant improvements in quality. Taking into account their resource capacities in 1983-1984, our farms will cultivate about 500,000 hectares, using these methods.

One important area in our energy-savings realization program has been corn storage without exsiccation. In 1982 600,000 tons were stored by our farms using this method, and by 1983 this unique kind of storage capacity has grown to 800,000 tons. The reduction of losses and the improvement of value contents have resulted in annual savings of nearly 300 million forints worth of animal feed.

#### Separate Credit Fund

Among the various organizational measures implemented, the utilization of a standardized and integrated plant protection process has proven to be one of the most effective methods. As a result of preliminary estimates of field-pest damage and better organization the amount of necessary protective measures has declined by 0.8 to 1.2 treatments, especially in our vine and fruit cultures. The value of savings attained in the use of chemicals is estimated to have exceeded 500 million forints.

Some of the successful actions taken by our food industry enterprises have included a reduction in the refraction percentage of soft drinks in the wine industry, changes in mixed fodder formulas of crop farming and the replacement in several branches of imported packaging materials with domestic products, but similarly notable successes have been achieved as a result of various undertakings in our canning, sugar and vegetable oil industry. Almost 14 percent of the total material savings estimated to have been attained in the food production branch in 1983 has been realized in the food industry.

In 1983 our enterprises and farms have continued to provide most of the resources they needed for material-savings targeted investments themselves. However, despite the limited availability of investment possibilities they have also been well-justified in receiving outside financial resources, primarily for making relatively less capital-intensive, short-term return type investments

that can be realized by way of instrument and machine procurements and machine replacements. In order to promote the realization of our material reduction goals the government has made it possible-- just as it has in the case of energy rationalization, by-product and waste utilization target quotas--for enterprises to supplement their own resources in making technological improvements that lead to more efficient material utilization. Accordingly, the Hungarian National Bank announced that it is inviting applications; since 1983 a separate credit fund has been set aside for the financing of these kinds of undertakings at favorable terms.

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FOREIGN TRADE BANK ISSUES STOCK IN CORN, GRAIN PRODUCTION SYSTEM

Budapest FIGYELO in Hungarian 19 Jan 84 p 13

[Article by B.: "Grain Stocks--for 180 Million Forints"]

[Text] The "grain securities" have arrived! The Hungarian Foreign Trade Bank Corporation and the Nadudvar-based grain production system, KITE [Corn and Industrial Crop Growing Cooperation] which is comprised of more than 400 farms will issue 180 million forints worth of grain stocks. Any farming organ may, according to the load-bearing capacity of its development fund, purchase stocks in units of 100,000, 500,000 and 1,000,000 forints.

The grain stock is our first production stock. The commodity stocks issued before these were tied to natural services, i.e. gas stocks were tied to gas, telephone stocks to telephones. "Grain securities," on the other hand, "only" involve money; they yield 12 percent interest.

Of course, the question arises why the Foreign Trade Bank decided to start with agriculture, and why with KITE of all organizations; after all, issuing stocks is not exactly a risk-free matter. For it is the bank which must underwrite the face value of the stocks and the interest they are expected to accrue. In the given case, should the undertaking fail it would have to compensate the stockholders from its own risk fund. Hence the value of the stocks must be guaranteed from the production side. And KITE has proven itself on many occasions.

The Hungarian Foreign Trade Bank Corporation does not hold lending rights for investments connected with activities in the field growing of plants. The only way it can finance an occasional promising undertaking of this kind is by forming an association with the agricultural enterprise in question. Owing to its production performance, KITE has been a party to two association contracts, amounting to 170 million forints. The next step is the issuing of stocks which is also a business venture for the bank. For stocks are business! Theoretically, in the case of grain stocks the difference in interests, the gains realized from capital

redistribution may earn the bank as much as 10 million forints in profits. The reason we only say theoretically is because the bank must turn all of its profits over to the budget.

Hence in this stock issuing action the bank's profits are only of secondary importance. The important thing is that in the absence of sufficient development funds KITE will be able to use the money it earns from its 180 million forints worth of stocks--which is cheaper than if it had to request and were subsequently to receive branch credits--to purchase entire lines of grain-cultivating machines which compared with the average of the past 3 years may achieve a surplus of 0.5 tons per hectare in wheat, and 0.8 tons in corn production. This will mean a total of 12,000 tons of surplus wheat and more than 10,000 tons of surplus corn for the production system which according to cautious estimates amounts to \$2.8 million in convertible export commodity funds.

We did not mention caution by accident. Our market prognoses indicate wheat prices of \$150 to \$160 and corn prices of \$115 to \$120 per ton. The issuers of the stock have used 20 percent lower figures in calculating world market prices which means that the \$2.8 million figure is more likely to be a minimum than a maximum possibility. And surplus export commodity bases promote our national economic objectives.

The system of conditions which governs the issuing of production stocks is very clearly definable: we need minimum import ratios in our investments and maximum, and not exclusively convertible, export commodity bases. And, of course, most importantly we need profits that will guarantee the face value of our stocks and the interest they are expected to accrue. Of course, this is very easy to say but there are many agricultural farms that could offer attractive possibilities for the trans-sectorial redistribution of excess enterprise-held free capital and of the possibly still unused credit funds available at our banks; to put it in plain terms: they could be used for stock purchases.

And here the emphasis is on "many farms". For a bundle of stocks amounting to 180 million forints will not lead to a landslide-like redistribution of capital; the most that can be expected is that it will become an important element in our functional stock flow. The only way this could develop on a larger scale, and the only possibility for excess enterprise-held and unused bank-held financial assets to be turned over economically and to be circulated on enterprise initiative among our national economic branches would be by issuing more production stocks with a variety of different conditions attached to them. Subsequently, this might lead to the creation of a regulated stock market that could become a barometer of business efficiency.



CONFLICTING ECONOMIC INTERESTS DISCUSSED

Budapest NEPSZABADSAG in Hungarian 24 Jan 84 p 3

[Interview with Tamas Beck, president of the Hungarian Chamber of Commerce, by Istvan Gabor Benedek: "In the Cross Fire of Interests"; date and place of interview not given]

[Text] When in December of last year the Central Committee evaluated the experience with developing the economy and approved the basic principles of the 1984 national economic plan and state budget, it specified for a period well beyond a single year the tasks that must be fulfilled in the interest of faster and more efficient growth. The document stated: "The balance of trade must be further improved primarily through the rapid expansion of export. More attention must be devoted to improving the export structure, to flexibly adapting to the market conditions, and to strengthening cooperation between the production and the foreign-trade enterprises."

The national economic plan sets also for the Hungarian Chamber of Commerce a responsibility-laden and longer-term work program. Representing its 870 member enterprises, the Hungarian Chamber of Commerce through its far-flung activity is contributing increasingly toward economic harmony. Evaluating the practice of the past three years, the government's Economic Commission spoke with recognition about the chamber's activity, emphasizing that in an extremely difficult period, under worsening external economic conditions and by employing many novel methods, the Hungarian Chamber of Commerce helped to reconcile central intentions with the interests of producers and traders.

In our interview with Tamas Beck, the president of the Hungarian Chamber of Commerce, on the far-reaching tasks of his organization, clarification of the complicated interest relations was inevitable. For this social organization, according to the new by-laws it adopted in 1981, sets for itself the threefold task of transmitting, reconciling and safeguarding interests.

## Disputes and Compromises

[Question] In the light of your experience, has not the chamber assumed too great a burden, too many conflicts that cannot be resolved, by pursuing its threefold task?

[Answer] We are living at a time when the burden can be expected to become heavier, and the number of conflicts to increase. Through our role of safeguarding our members' interests, however, we are striving to reduce specifically the problems of management and implementation. Before the chamber's forums --at the meetings of its presidium, board of directors, and various committees and sections--our member enterprises are able to learn about the plans and new concepts of economic policy even before they are drafted in their final form. In their turn the officials of the Chamber of Commerce regularly attend the sessions of the State Planning Commission, the Economic Commission, and occasionally even of the Council of Ministers; by definition, they also convey to the government organs the views of the member enterprises. Specifically the latest evaluation by the Economic Commission points out that, through our activity, a better knowledge of the enterprises' standpoints has made decision making better substantiated, and implementation and action more secure.

Chief executives of the member enterprises are meeting more and more frequently with cabinet members. The other day Peter Veress, the minister of foreign trade, received the ten members of our board of directors. We agreed, among other things, that the ministry and the chamber would elaborate very soon a system of cooperation, and also the conditions of a division of labor, better suited to the present difficult situation in the foreign markets. The ministry is aiding the interested enterprises more effectively through its intensive trade-policy work, and the enterprises are participating in the export-expansion programs more actively, assuming more risk.

Soon after his appointment, Industry Minister Laszlo Kapolyi and the top officials of his staff deemed it important to meet with the chairmen of the industry sections of the Hungarian Chamber of Commerce. For within the chamber there are, we might say, professional clubs where enterprise directors of the aluminum industry, fuel and power industry, ferrous metallurgy, electronics, communications and vacuum engineering industry, instrument industry, mass metal goods industry, food industry and automotive industry, among others, meet regularly. The minister emphasized that he was striving to pursue a consistent industrial policy and would always want to take into consideration the views of the sections' officials before a uniform standpoint was formulated.

[Question] Does it not seem that the enterprises, by safeguarding their own interests before the forums within the chamber, are not taking adequately into consideration the interests of the national economy?

[Answer] The reconciliation of interests is always a compromise. But today's economic development often has failed to reach even the point where a serious confrontation of interests would have been possible. Our member enterprises feel that often the Ministry of Industry is not representing their interests adequately. The ministry, of course, is striving to strengthen the confidence

of the enterprises in that joint action is meaningful and effective. The officials of the industry sections pointed out specifically to Laszlo Kapolyi that implementation of the announced electronics program was accompanied by growing problems. Investment was taking place one-sidedly in microelectronics, while the telecommunications equipment and instrument industries were reporting lags, despite the fact that primarily they were the industries where the results of the investment projects in microelectronics could be utilized. Moreover, the program called for basing the development of the production of parts on the internal resources of the enterprises, but these resources were lacking. Thus it was to be feared that the anticipated results would not be realized suitably. At the meeting with the minister it became evident that the concerns of the enterprises in this matter matched those of economic management. Among other things, also in the sense that the tasks of the enterprises selling capital goods should be regulated so as to improve the economic efficiency of the producers of basic materials, and the supply of materials for the users.

[Question] You obviously know also of cases in which the standpoint of the chamber's members differed from the standpoint of higher economic management.

[Answer] We did have disputes. On behalf of our enterprises, for example, we said that producers would not be able to operate under optimal conditions if the interest rates on investment credits were subsequently raised during the year by one or two percentage points. We also said that the enterprises' performance would decline if normativity was combined with negative sanctions; in other words, if income was centralized--often on the basis of retroactive decisions--as soon as the enterprises earned it. Of course, we too must understand that the government's actions are dictated by necessity. Today, and for a long time to come, nothing must jeopardize the maintenance of our international solvency.

As we very well know, the measures that were adopted during the year in response to unexpected developments have had also unforeseen effects. However, as specifically the lessons of recent years demonstrated, an even greater problem arises from failure to act, or from adopting the subsequent decision too late. This is a bitter pill to swallow, but at present there is hardly any other guaranty of recovery. We have to work jointly so that the negative effects may be kept as low as possible and regulation may help specifically the enterprises that want to grow and expand their export.

[Question] Don't the enterprises sometimes feel that the chamber, in the cross fire of interests, has exceeded the limits of what they regard as an acceptable compromise?

[Answer] This might happen, but it is in our common interest to operate on the basis of identical principles. This is why we are advocating that our partners, at every stage of the government's work, gain a deeper and more thorough understanding of the motives underlying enterprise behavior. And if from the very outset the chamber and its member enterprises are included in this manner in the mechanism of preparing decisions, then the necessary compromise will be received with confidence and will have a mobilizing effect.

I must, of course, mention also the other side of the equation. A good many enterprise directors are unwilling to agree, have no creative drive, lack the ability to adjust to change and to communicate. The chamber, too, has a task to elaborate the model of "smooth retirement" so that the directors who are tired and find it difficult to understand the requirements of the times may retire surrounded by society's appreciation.

#### Moral Pressure

[Question] Let us turn from the transmission and safeguarding of interests to their reconciliation. It seems that the supplier enterprises and their customers, the mutually cooperating enterprises, have a growing need for the reconciliation of their interests. What is the Hungarian Chamber of Commerce doing to improve discipline in deliveries and the maintenance of quality?

[Answer] Our members appreciate their increasing independence. They are fully aware of the advantages that stem from their ability to enter into contracts on the basis of their own decisions and to freely agree on the terms of their contracts. But specifically this freedom creates conflicts of interest between enterprises, conflicts that, if left unresolved, could cause serious losses to the national economy. We felt we should help the enterprises willing to resolve the arising problems "internally". We drafted a code of ethics that our member enterprises have adopted. And we established an ethics committee. Admittedly, we--unlike the courts--cannot impose sanctions, but everyone knows that the partners will bring strong moral pressure to bear on the enterprises that violate our code of ethics. We have long had an arbitration service that settles legal disputes between Hungarian and foreign enterprises. Recently also the Economic Commission praised our arbitration service. In our opinion, still too few disputes between Hungarian enterprises are being submitted to us for arbitration. We are encouraging our member enterprises to use our arbitration service as frequently as possible. We have proposed that the Ministry of Justice support our efforts also by introducing changes in the existing statutory regulations. Our objective is to create an economic environment in which the enterprise that uses clean methods in its production and marketing will enjoy a definite advantage, while the enterprises that ship late, do not meet quality specifications, want to reap unfair profit and violate their contracts will be stigmatized.

#### Decisions Without Procrastination

[Question] As you have already indicated, the Hungarian Chamber of Commerce is participating increasingly in the expansion of foreign trade. But today, when there is so little money available, will not the chamber's participation--in addition to the ministries, banks, and particularly the production and foreign-trade enterprises--mean a dissipation of resources?

[Answer] To the contrary, experience shows that the chamber is helping to concentrate resources. Our so-called provenance and destination sections have been functioning successfully for many years. The enterprises that have been trading with the same countries for a longer period of time have formed clubs (here again this is the term that best describes them). Hungarian sections can be found also in the CECA countries' chambers of commerce, just as within the



organizations of the industrially developed capitalist countries. The Hungarian enterprises concerned meet regularly to exchange their market experience, but they often get together with their foreign partners as well. They hold symposiums, trade shows, and round-table conferences on the economic possibilities of individual countries or country groups, and these effectively enhance the enterprises' competitiveness and the expansion of their relations.

Let me cite two illustrative examples from the recent past. We have agreed with the Paris Chamber of Commerce to use their excellent data bank. Recently their computer identified 180 French companies that would gladly trade with Hungary but have been unable to establish contact so far. The president of the Chamber of Commerce (his company built the Paris metro) said that he would gladly buy various reinforced-concrete structural components and materials from Hungary, and that his company--similarly as other French companies--was willing to cooperate with us in the markets of third countries. And the other example: We invited the president of the Dubai Chamber of Commerce. He said that business circles in the United Arab Emirates would probably be willing to invest in Hungary, at a suitable profit and under adequate guaranties. We intend to continue the Hungarian-Dubai negotiations on founding joint companies, and at the same time we are working to ensure unambiguously clear legal conditions for investing in Hungary.

[Question] From what you have said it appears that the chamber's main objective is to act as a good consultant, to the government on the one hand, and to the enterprises on the other. In its capacity as consultant, what does the chamber plan to discuss with its partners in the near future?

[Answer] That performance must be evaluated more strictly within the enterprises, while recognition is more differentiated and offers more incentive. That trade policy truly aid those who are willing to expand trade. But let me continue. With the means available to use, we will do everything possible to ensure that the administration of wages will not only regulate the outflow of purchasing power but will also create favorable conditions for the better utilization of capacities and serve to provide recognition of the working collectives' performances.

We will say time and again that enterprises and trusts should be reorganized only when this is warranted and will help to raise their efficiency, and that any reorganization must be carried out quickly and decisively, because procrastination causes substantial material losses and undermines morale. Since we are participating in the work of the Central Committee's panel of economic advisors, and are invited to attend the sessions of the Economic Commission when it discusses topics that are of interest to us, we would like to be included also in the work of the National Assembly's Industry Committee. We are striving to help more actively than up to now in organizing import substitution. And we would like to see that the enterprise directors who are also chamber officials are included in high-level trade negotiations. For practice has demonstrated, and also the Economic Commission evaluation noted, that consistent support of the ideas advanced by the Hungarian Chamber of Commerce produces tangible benefits.

# PLANNING OFFICE OFFICIAL OUTLINES INVESTMENT POLICY

Budapest STATISZTIKAI SZEMLE in Hungarian Jan 84 pp 5-13

[Lecture by Dr Janos Hoos, state secretary of the National Planning Office: "Timely Questions of Investment Policy"; presented at the 13th Itinerant Session (INFO '83) of the Industrial Statistics and Business Administration Group within the Statistical Section of the Hungarian Economics Society, held in Szekszard on 11-12 October 1983]

[Text] It has been our basic principle of long standing that investment policy must be set in close harmony with economic policy and subordinated to it. Two reasons warrant that we emphasize this. First, economic policy changed fairly significantly in 1978, and this has caused modifications in the area of investment as well. Secondly, in the present economic situation it is especially important that the experience with investment policy under the conditions of limited investment opportunities be taken into consideration when setting the direction of general economic policy.

The basic principles of economic policy formulated in 1978 incorporate three main objectives:

--Improvement of the national economy's equilibrium, especially of its external equilibrium;

--Preservation of the living standard, and improvement of living conditions; and

--Increased creation of resources within the national economy, and reinforcement of the trends producing a sustained improvement in its state.

In the past period, because of the large-scale deterioration of external economic conditions, it has been necessary to single out the first of these three basic principles and to assign top priority to activity that aims to preserve solvency. For reasons of social policy, however, we are maintaining as far as possible the population's living standard. Therefore the increase of our international payment obligations has made necessary significant modification primarily of our earlier investment-policy concepts.

The 6th Five-Year Plan's original concept called for a reduction of the volume of investment only in 1981, and its slow growth thereafter. Due predominantly

to the worsening of the external economic conditions, but also because of domestic economic activity's lower efficiency, we have been forced to curtail investment considerably and continuously. For 1983 we had to target a reduction unprecedented in Hungary during the past 25 years.<sup>1</sup> The volume of investment planned for 1983 is slightly lower than the 1975 volume, and significantly lower than in 1978. (See Table 1.)

Table 1. Volume of the Socialist Organs' Investments, at 1981 Prices

<u>Year</u>	<u>Billion forints</u>	<u>Percent of 1975</u>
1975	172.0	100.0
1976	171.6	99.8
1977	196.1	114.0
1978	206.9	120.3
1979	209.2	121.6
1980	195.2	113.5
1981	182.8	106.3
1982	177.1	103.0
1983 plan	158.3	92.0

The rate of gross accumulation will drop by more than 10 percentage points over 1978, partially as a result of a substantial reduction of inventories. Net accumulation this year will be about 13 percent of national income spent domestically, as compared with the customary rates of around 25 percent in recent decades.

In 1981-1983, at comparable prices, we spent 8 percent less on investment in the socialist sector than what the 6th Five-Year Plan had anticipated. Investment spending in 1982 and 1983 exceeded the annual national economic plans but fell short of the five-year plan.

Table 2. Development of the Socialist Organs' Investments (billion forints, at 1981 prices)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1981- 1983</u>
6th Five-Year Plan's target	182.0	187.2	191.0	560.2
Actual or planned fulfillment	182.8	177.1	158.3	518.2
Actual or planned fulfillment in percent of medium-range plan	100.4	94.6	82.9	92.5

At the same time the volume of private investment in 1981-1983 was 14 percent higher than what the medium-range plan anticipated. As a result, actual investment in the national economy during the 6th Five-Year Plan to date will be about 6 percent less than what the medium-range plan anticipated.

There are as yet no final and accurate projections for the coming years, but the volume of investment in 1984-1985 will probably fall 20 to 25 percent short of the 6th Five-Year Plan's target.

<sup>1</sup>It now appears very likely that we will not succeed in attaining the planned reduction of the volume of investment.



Within total investment, especially investment in machinery imported from capitalist countries will have to be reduced sharply, to about two-thirds of its 1978 volume.

**Machinery From Nonruble-Denominated Import in the Socialist Organs' Investments**

(billion forints at current prices)

<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
14.4	16.4	21.8	25.5	22.3	17.8	19.3	18.5	12.5

We are aware that we would need substantially more nonruble-denominated imports of machinery to provide the basis for the economy's long-range development, to narrow the lag in our technical level, and to improve the competitiveness and modernness of our products, but in the economy's present equilibrium situation this is simply not possible. In recent years we have sharply curtailed our nonruble-denominated import in order to remain solvent. Within this, however, maintenance of the continuity of production warranted curtailing productive import only to the absolutely necessary extent. Because of its volume and for considerations of social policy, import for consumption likewise could not be curtailed sharply. Thus the burden of improving external economic equilibrium, of increasing the surplus in the balance of trade, fell mostly on import for investment purposes.

Within the limits of the existing possibilities, we strived nonetheless to enhance the economy's ability to generate more resources, by means of the realized investments. We assigned priority to several important government programs. We reviewed the earlier concepts of investments within the state's decision-making competence, and on the basis of the results of this review there has been a certain rearrangement of state preferences. We are aiding also with central resources the investments that economically expand export, sensibly substitute import, and reduce the costs of energy and materials. The fact that some of the enterprises have not altered as yet their earlier development concepts, in spite of extensive changes in the economic conditions, and thus the demand for investments continues to exceed what the economy is able to afford, is creating a problem. But the continuation and occasional increase of the shortages are due also to the failure of some of the councils and central organs to adjust their demand to the new situation. In the wake of the decline in investments that has been continuing for several years, the question is being raised with increasing frequency as to whether the volume of investment is too much or too little in comparison with our present possibilities or from the viewpoint of ensuring the economy's future growth.

In the 1970's through 1978, the accumulation rate in Hungary was definitely high as compared with the developed capitalist countries.

Table 3. Investment Rates in the OECD Countries and Hungary\* (percent)

	<u>1970</u>	<u>1978</u>	<u>1981</u>
European OECD countries	23.0	20.7	20.3
OECD countries jointly	21.7	22.0	21.2
<u>HUNGARY</u>	30.7	34.1	25.1

\*In national currency

The investment rates express the accumulation rate in each country's national currency, and therefore they are influenced also by the price ratios of capital and other goods. Since the relative price level of capital goods is higher in Hungary than in most OECD countries, it is estimated that at the end of 1982 our accumulation rate, based on comparisons of the investment volume's content, equaled the average accumulation rate of the OECD countries.

In spite of its considerable decline in recent years, our investment rate can not yet be called too low by international comparisons. Significant structural changes occurred also in other countries at relatively low accumulation rates. The only difference is that while in the Western European countries the volume of investment dropped in the mid-1970's, in Hungary this occurred only after 1978; and although we have begun to transform the structure of investments so as to utilize the available developmental resources more efficiently, this process is much slower than necessary or even possible. Thus there are substantial "reserves" in the better utilization of our investment possibilities. But until we are able to mobilize these reserves, the mentioned total investment volume--although it might not appear low by international comparisons--will not prove adequate for the restoration of sustained equilibrium and for laying the foundation of our long-range objectives. Therefore it is essential to remove the retarding factors and circumstances in this area.

Among the factors hampering the utilization of reserves we should mention particularly the following:

1. One factor hampering the better utilization of resources available for investment and development is that the projects started earlier and still in progress tie down substantial resources. We could list a good many earlier investment starts that, in retrospect, should have been delayed or would not be begun at all today. However, cancellation of investment projects in progress would mean the freezing or even permanent loss of the capital already invested, and therefore our options in this area are rather limited.

2. Another significant problem is that the flow of capital is extremely slow. This is a fundamental problem also because investment policy, under the limited investment possibilities, must concern itself not only with additions to capital, but with the faster regrouping of existing capital assets as well. Today additional development resources are being formed (for example, through depreciation) also at many enterprises and activities that cannot be regarded as promising, neither now nor in the future. At work stations in the enterprises, for example, a considerable amount of fixed capital is lying idle that is needed at other enterprises or could be operated more efficiently at other economic organizations.

3. Improvement of the efficiency of investments is being hampered by the still low cost-sensitivity of the enterprises. As a result of this low cost-sensitivity, surplus capital assets are not being regrouped or only very slowly. Efficient cost management necessitates a more realistic assessment of direct labor (of wage costs in particular) and of embodied labor (especially of the costs of capital assets). It appears that while the costs of increasing the work force in the case of expansion are excessively high in comparison with the development costs, in current operations the trend is the exact opposite:

the enterprise is not interested in saving manpower through the introduction of less labor-intensive technologies, for example. As a result of the inadequate valuation of the factor costs, the excessive investment demand persists, but so does the demand to retain and even increase the work force. This leads to the dissipation of resources and to their unsuitable utilization.

4. A specific problem in recent years has been that purchasing power in the investment market has exceeded year after year the investment possibilities.

Already the 6th Five-Year Plan anticipated that domestic spending would be able to increase at a slower rate than the generated incomes, in order to achieve a balance-of-trade surplus. In the course of the plan's realization, primarily as a result of the tighter possibilities of borrowing, it became necessary to achieve a larger trade surplus than what the medium-range plan had called for. But income regulation was unable to meet the requirement that the incomes to be spent must be in approximate equilibrium with the investment possibilities already when the incomes were generated. This contradiction was further intensified by the growing demand for subsidies, by the fact that, under the price system and financial system, real incomes and actually recovered costs are not the only sources from which development resources are formed. This permitted an increase of the enterprises' development funds even at a time when the economy's income-producing ability did not grow or did so only slightly.

These methods compelled us to subsequently reduce, by various instruments and methods, the development resources formed at the enterprises. The results of these readjustments were less than had been expected. Moreover, the readjustments introduced uncertainties into the enterprises' long-range operations and also increased their propensity to spend.

5. Faster improvement of efficiency at the macroeconomic level is hampered also by economic management's inability to suitably assert as yet the priorities in investing. Although attention has focused lately on the intersectoral priorities that serve to improve the efficiency of the entire economy--e.g., energy conservation, and rationalization of the consumption of materials--in many instances we are unable to oppose forcefully enough the attempts to promote the realization of earlier investment objectives that in the meantime have become outdated and are also in conflict with the more limited investment possibilities. Usually the state budget or the credit sphere also helps to finance development projects of low efficiency. The resources being formed in unprofitable or not very efficient areas are still considerable and, as a result, resources are not being regrouped to areas that should be developed at a rapid rate and will be economical in the long term.

6. Autarchy is still highly characteristic of the realization of investments. With few exceptions, we are solving the investment tasks almost exclusively with domestic contractors, which is an obstacle to the contracting organizations' specialization. The domestic contractor cannot be expected to be prepared to handle every single-design investment task. Therefore we should be using imported contractor capacity more widely than at present, and at the same time should expand the export of domestic contractor capacity. This of course applies not only to construction but to planning and design as well, and it presupposes our more intensive participation in the international division of labor.



7. As we have already indicated in a different context, the nonruble-denominated import of modern and competitive technologies and equipment has become an ever-greater problem in recent years and in 1983 in particular, due to the diminishing possibilities of importing from capitalist countries. The faster long-term growth of the formation of resources and of resource-generating activity requires the expansion of the possibilities of nonruble-denominated import. But the prospects of expanding this import, parallel with ensuring the import necessary in production and for the population's adequate supply with merchandise, are very limited.

8. In spite of the more limited investment possibilities than in years past, there has been no meaningful improvement in the "investment market," including construction work, installation of the technology, and the supply of machinery and equipment. The realization time of investment projects has not become shorter, and professional project-organizing and project-managing activity is developing slowly. A contributing factor in this has been the fact that the domestic organizational structure of investing and of realizing the investment projects has hardly changed; this organizational structure is still overcentralized, and performances are still held back frequently.

From the viewpoint of investment policy, then, there have arisen several questions that will have to be thought through carefully in the interest of a suitable economic policy and suitable economic management in the coming period, and the most favorable decisions will have to be adopted on the basis of comprehensive deliberation.

Among the most important questions with a direct bearing on economic policy we should point out the following.

1. It will hardly be permissible to drastically reduce the volume and proportion of investments in the future. For this would most certainly jeopardize maintenance of the technological level in wide areas of the economy and therefore would have severely harmful consequences for the processes of sustained equilibrium. To accelerate the formation of resources, to improve the economy's income-producing ability and competitiveness, and thereby to preserve the standard of living in the long term, therefore, we probably will again need to distribute more evenly the burden of improving the economy's equilibrium: both domestic consumption and foreign loans will have to assume a greater share of this burden. In the interest of increasing the share of the burden assumed by foreign loans, it will be necessary to improve the possibilities of acquiring operating assets from abroad, and it will be warranted to attract such resources on a greater scale than up to now.

We must again rethink the objectives and priorities of investment policy so as to utilize the most efficiently the limited investment possibilities. The investigations to date indicate that in the next few years meaningful additional resources will be available--over and above the expansion of export, sensible curtailment of import, and reduction of energy and material costs--at most only for preferring investments in the nature of reconstruction and modernization projects.

The present low level of nonruble-denominated machinery import must be raised as soon as possible. In order not to hamstring the process of modernization,

a study will be inevitable of ways to increase this import, even if only temporarily. In this context it will be necessary to investigate also the possibility of using more foreign financing.

Improvement will be warranted of the conditions under which investments are realized. Faster realization of the developmental objectives at lower cost will probably require modernization of the entire system of letting contracts for investment projects. Accordingly, the material and technical supply base of investment activity, the construction industry, the building materials industry, technological installation, and planning and design will have to be developed. The organizational system, too, will have to be better geared to this purpose. In all likelihood the present overcentralized structure of enterprises, geared to undertaking large investment tasks, will have to be adjusted to the investment structure that can be expected in the future, i.e., to undertaking smaller development, and reconstruction and renewal projects.

The favorable effects of international cooperation must be reinforced in the entire investment process. The most advanced international trends must be taken into consideration, in the elaboration of the developmental concepts as well as in their realization. We believe that in the long term it will be possible to develop the construction industry's international relations, including economical export as well as the importation of construction work when it costs less than construction by domestic contractors.

2. Realization of the objectives of investment policy requires also further perfection of the system of economic management to accelerate the innovation process, to make intensive development policy widespread, and to significantly improve the efficiency of investments.

Changes are necessary in income regulation that at the macroeconomic level will keep incomes, as they are produced, basically in harmony with the investment possibilities. Differentiation based on profitability must be increased in the formation of the development funds. As a result, the self-financing ability of the efficiently operating and profitable enterprises would increase, while in the less efficient areas the resources formed would not be enough to ensure even simple reproduction.

The present profit level is excessive and should be reduced. It would then be possible to lower the profit tax, whereby the enterprises would become more profit-sensitive.

Another essential task is to keep distortions in the price system at a minimum. This would create conditions more favorable for showing as profitable also at the enterprise level the activities that are efficient at the macroeconomic level. More realistic valuation of the factors of production must be made possible also through the system of income regulation. If direct labor and embodied labor are valued uniformly, the enterprises will have greater independence in rationally substituting one factor of production for another. To satisfy these requirements, significant changes in the present system of income regulation will be necessary already in 1985.

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The enterprises' cost-sensitivity must be increased. We must achieve that the economic organizations efficiently manage and suitably combine their direct labor, materials, and the fixed capital tied down in production. We need a wage system that will enhance the greater mobility of the work force and stimulates its more efficient employment. The importance of this is not negligible even from the viewpoint of investment policy. Operating modern and competitive equipment two or three shifts a day, for example, improves their utilization and could result in a reduction of the demand for investments.

Even under resource formation and income regulation that meet the above requirements, to control the business cycle we still need instruments that can flexibly adapt to the conditions and are able to increase the present, exceptionally low, propensity to save, or can enliven investment interest in certain areas. This probably can be solved primarily with the instruments of subsidization, credit and depreciation policies and, last but not least, with the instruments for the monetary regulation of the propensity to save.

A fundamental task of structural policy is to meaningfully assert the macroeconomic priorities, to integrate the most important investment decision into, and to coordinate them with, the planning decisions. To realize the predominantly intersectoral developmental priorities that serve to speed up the transformation of the meso- and microeconomic structures, we must rely on the active initiative of the enterprises and concentrate their own resources on these priorities, by stepping up the requirement of profitability. Which means that the government programs for the realization of preferential objectives are generally open-ended programs that additional participants may join in the course of the programs' realization. The competitive nature of participation, the sharing of costs commensurately with the enterprises' interest and their ability to assume risk, will be assigned a growing role.

To accelerate the flow of capital, flexible financial schemes must be allowed to function that will enhance the flow of developmental resources. The flow of capital in this sense includes the flow of capital within the enterprise, changes in the spheres of activity, and also the flow of capital between enterprises. The flow of capital must not be limited to the additions of capital that are being realized but must include also the allocation of existing assets. To this end the permanently insolvent enterprises must be compelled to sell off a part of their fixed assets, respectively an incentive must be allowed to gradually develop that will ensure the greater mobility of fixed assets, together with the organizational conditions for selling fixed assets.

Credit is an important instrument for asserting the state's structural policy. Also in terms of amount, credit--bank credit and state loans jointly--accounts for a substantial proportion of the sources for financing investments. But this role of credit asserts itself in a highly concentrated manner. It can be established--and follows also from the objectives of the credit policy pursued up to now-- that primarily the large enterprises received the bulk of the state loans as well as of the bank credits, usually for the realization of high-cost and high-risk development projects. The high degree of the obligations' concentration (or the highly concentrated decision-making and crediting that preceded this concentration of obligations) is in itself a cause of the necessarily long terms of the credits and loans.



The 123 enterprises with fixed assets exceeding a billion forints in gross value account for 90 percent of the total obligation outstanding, and the obligations approximate 40 percent of the gross value of their fixed assets. These same enterprises account for 98 percent of the state loans outstanding, and also for 76 percent of the investment credits outstanding. Nearly four-fifths of the total obligation is at enterprises whose profitability does not exceed 8 percent.

Credit's role and sphere of influence can and must be strengthened through changes in credit practice. This requires less concentrated credit financing, and a larger share of the enterprises' own resources, for credit basically is nothing other than a secondary source of financing that supplements the enterprises' own resources, enabling them to realize their profitable development projects. A flexible interest-rate policy that adjusts to the conditions can ensure that the enterprises feel the burden of their capital investment and will prefer savings to development projects that are not sufficiently profitable. To this end a further development of the banking system is warranted that will increase the banks' responsibility, and their assumption and sharing of risk. The banking system must be modernized, the banks' income must be regulated, and their control by the central bank must be developed. Furthermore, the rigid demarcation of the banks' activities must be lifted, and unwarranted monopolies must be abolished. Basically crediting must enhance the economical development of profitable enterprises, and it is not our purpose to give the enterprises state subsidies through credits.

It appears that credit and enterprise resources in themselves are not enough for the realization of certain development projects that are efficient at the macroeconomic level; or, in a few instances, for the dynamic development of profitable activities. The freer flow of capital could resolve this contradiction to a large extent, but probably also the increase of capital and the allocation of additional capital will be necessary. I believe that this can happen in coordination with the objectives of investment policy and contingent on the criteria of efficiency.

In the course of modernizing the system of organizations, flexible organizations must be formed that are capable of entrepreneurship. An important task is to remedy the shortcomings in entrepreneurial skills and in training for entrepreneurship. To this end the possibilities must be provided to change the production structure more flexibly, and to form partnerships and joint ventures for the more efficient and faster realization of individual investment objectives.

The purpose of the outlined changes in economic management and regulation is to provide relatively more favorable conditions for the operation of profitable enterprises and for the realization of economical development projects, and to aid the more efficient utilization of existing assets. To permit or compel, through the regulation of income and purchasing power, greater foresight and more careful economic deliberation. And thereby to let the enterprises feel the real burden of their capital investments, making profitability a condition for their survival.

Important preparatory work in the direction outlined above is underway, primarily within the framework of drafting the 7th Five-Year Plan, and of economic management's comprehensive further development. As a result of this preparatory work, we hope to make meaningful progress in 1983 [as published] or under the 7th Five-Year Plan. As far as possible, however, planning for 1984 also will strive to meet the outlined requirements.

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CSO: 2500/208

# ACTIVITIES, PROBLEMS OF FOREIGN TRADE ENTERPRISES DISCUSSED

Comments of MOSTOSTAL Director

Warsaw RYNKI ZAGRANICZNE in Polish 31 Dec 83 p 8

[Interview with Michal Skipietrow, director of MOSTOSTAL-Export Construction Enterprise, by Barbara Milewska; date and place not specified]

[Text] [Question] Barbara Milewska: Sir, almost a year and a half ago, i.e., shortly after MOSTOSTAL-Export received a license to conduct foreign-trade operations independently, you described in RYNKI ZAGRANICZNE<sup>1</sup> the firm's situation at that time--its problems and its future plans. By this time you have probably gained a good deal of concrete experience and maybe made some mistakes.

[Answer] Michal Skipietrow: Let me begin with what has given us reason to be pleased. First of all, we are finished with the organizing stage. We recruited a highly skilled cadre of professionals who are fully prepared to accomplish the tasks required by statute. Among other things, we set up the following departments: trade-canvassing, currency, legal, and forwarding-transportation; and a price and bank-information section. Because the people employed in those departments are highly qualified almost all trade matters are taken care of at the departmental level. Furthermore, we are very happy that genuine ties have been established with all MOSTOSTAL enterprises and we can now count on their support. Therefore, we are not operating in a vacuum but on the basis of the enormous production potential of this entire organization.

[Question] How do you reach your potential foreign customers?

[Answer] We place a great deal of emphasis on an energetic advertising and orders-canvassing campaign. We have sent letters in foreign languages describing the scope of our operations to almost 500 firms in 34 countries of the second payments area [capitalist countries] and also to 64 Polish trade-advisory offices. Enclosed with the letter are advertising materials in the form of general offers, letters of reference, brochures and pamphlets. We have published nine items consisting of offers, information, and technical description, for a total of 48,000 copies. This does not include small job-prints and calendars. We have not forgotten about press advertising, either. We published our first issue of the MOSTOSTAL-EXPORT REVUE and have placed articles and advertisements in the domestic and foreign press. We should also mention two

<sup>1</sup>See RYNKI ZAGRANICZNE, No 67, 8 March 1982.

films which were made in both English and German, describing MOSTOSTAL's offer and our foreign construction. In addition, we took part in international trade fairs and exhibits in Poznan, Lipsk, Baghdad, Hanover, Zagreb, Brno and Vienna. We organized an exhibit at the Ministry of Construction and Construction Materials Industry and a special exposition at the Construction Exhibit at Bartycka Street in Warsaw.

[Question] Has this campaign brought any concrete trade results?

[Answer] As a result of the campaign we were able to establish contact with potential partners and customers, and what is most important, we received over 200 serious inquiries to which we responded with offers. I would like to add that because we are not able to sell investment supplies on credit, we are directing our main canvassing effort at design offices and supply and completion houses in such countries as the FRG, Great Britain, Japan, France, Italy, Austria, Canada, and the Scandinavian countries, and to a lesser degree at direct investors. Practically speaking, we see our opportunities to export to the second payments area through cooperation with the large western firms which finance and realize orders for complete facilities.

[Question] How do you stand with contracts at this time?

[Answer] We have signed contracts for almost 300 million zlotys, with implementation to begin in 1984. Three important orders for a total sum of over 1 billion zlotys are now in the final negotiating stage. Offers submitted by us which have good prospects for positive results exceed 5 billion zlotys.

[Question] It appears then that the anticipations are great but the concrete results are still relatively modest.

[Answer] We believe that this is typical for every new organization that is just beginning its operations. We will simply have to wait for a more complete evaluation.

[Question] Do I understand that the amounts that you have given cover transactions entered into by your firm independently, i.e., without the intermediation of other foreign-trade offices?

[Answer] Of course. But to be precise I must say that we still continue to take advantage of such intermediation, appearing then in the role of a general contractor or operating on our own account. It is our task, however, to take over at least half of the entire export conducted by the MOSTOSTAL organization, doing so directly. When our functioning as an exporter guarantees that all of our own costs are covered, and we are able to achieve at least a minimal profit, we will be satisfied.

[Question] I am interested in knowing why, at all, you are using domestic middlemen when, as you say, you feel that you are fully capable of conducting export operations independently?

[Answer] This is because of the legal barrier which the Ministry of Foreign Trade set up for us by limiting the license issued only to the countries in

the second payments area countries, and also excluding Libya and Iraq, i.e., customers which purchase over 90 percent of MOSTOSTAL's export goods and services. Because of this limitation, the enterprises of this organization are forced to pay other foreign-trade offices approximately 200 million zlotys annually for brokerage in entering into transactions with the socialist countries and the two others. This money could be better used, if only for promotion and canvassing in various geographic areas, or research and development work which would improve the competitiveness of MOSTOSTAL's offers. The territorial limitations of the license hurt all of the MOSTOSTAL enterprises which are deprived of the de facto right to choose a trade broker in their export operations. We should also bear in mind that the foreign-trade offices which export construction (broadly interpreted) can choose from many domestic suppliers. The MOSTOSTAL offer frequently is not the only one, but one of many--without any preferences. On the other hand, our enterprise looks at it very differently, because, after all, it was formed in order to do a good job of exporting what MOSTOSTAL is offering.

[Question] Are you making specific efforts to have the above-mentioned geographic limitations removed?

[Answer] The enterprises grouped in the Council of Exporters and the MOSTOSTAL Association sent a unanimously passed resolution on this matter to the Minister of Foreign Trade in February 1983. As a result there were two meetings between the representatives of all of the parties involved, i.e., the MOSTOSTAL enterprises, the Ministry of Construction and the Minister of Foreign Trade. At that time the Ministry of Foreign Trade expressed total friendliness and understanding but to this day no concrete decisions have been made at that level.

[Question] Could it be that the arguments that MOSTOSTAL presented were not sufficiently convincing?

[Answer] I will be happy to quote them. For example, in one of the papers, signed by the chairmen of the Council of Exporters and the MOSTOSTAL Association, we read the following: ...To be subjected to the dispersed and unspecialized intermediation of several different foreign-trade offices which currently export our goods and services to markets forbidden to us does not safeguard our export interests, maintain production potential, development and modernity, and furthermore contributes to damaging competition. Issuance of territorially limited licenses continues to effectively isolate MOSTOSTAL producers from foreign markets, which does not conform with the intent of the law on licenses... Conducting this export directly by MOSTOSTAL will provide a greater guarantee that it will be efficiently and properly serviced. At the same time, not changing anything in the area of trade and payment problems it cannot in itself threaten the interests of the state; and only in such case does the law dated 26 February 1982 on the right to conduct foreign trade permit, in art 12.1, restrictions on a license.

The viewpoint that certain markets must be serviced exclusively by foreign-trade offices for treaty reasons (USSR) or payments reasons (Iraq and Libya), has no basis, because the foreign-trade offices, just as MOSTOSTAL-Export, are



trade enterprises and, quite naturally, cannot conduct any treaty or payment policy in behalf of the state. This is exclusively the domain of the central organs of state administration.

Moreover, the payments and treaty difficulties that occur on particular markets are always of an economic nature, i.e., they are temporary, while the license is issued for a longterm period. The Ministry of Foreign Trade, which has an immediate and effective system for controlling treaty and payment problems, does not need to resort to placing limitations on licenses which serve an entirely different purpose and regulate the export activity of enterprises for a period of many years..."

[Interviewer] I think that the trump card in this whole struggle will be good MOSTOSTAL-Export results. I hope you will achieve them and thank you for the interview.

#### Comments of UNITRA Officials

Warsaw RYNKI ZAGRANICZNE in Polish 5 Jan 84 p 8

[Interview with Tadeusz Kaczmarek, assistant director general, Tadeusz Kosecki, manager of the trade policy department, and Piotr Swiecki, manager of the organizational department of UNITRA [Electronic Components and Equipment], by Maria Kwiecien; date and place not specified]

[Text] [Question] Maria Kwiecien: What's new at UNITRA? What are you selling and how's business?

[Answer] T. Kaczmarek: Let's begin with figures. The 1983 Plan foresaw exports valued at 9.5 billion zlotys to the first payments area [socialist countries] and 3.3 billion zlotys to the second area [capitalist countries]. The bulk of our trade exchange is with the socialist countries. Our largest partner is the USSR, followed by Czechoslovakia, Hungary, GDR, Bulgaria, and to a lesser degree our work involves Cuba, Vietnam, Mongolia and Albania.

From the USSR we import the Rubin and Elektron color television sets, of which we now have over a million. For our part, we export record players to the USSR, and in October of last year we sold the millionth unit. In addition, we are supplying discotheque equipment, which is going very well in the USSR. We are attempting to sell active and passive devices on the USSR market. We are also selling tape-recorder heads and mechanisms, and light sources.

Our second partner, in terms of size, is Czechoslovakia. In 10 months of last year our export to Czechoslovakia amounted to 1.8 billion zlotys, and our import was 1.4 billion zlotys. I will mention that the result of our coproduction with the Tesla firm is a stereo record player which is called "Daria" in Poland and "Diamant" in Czechoslovakia. I would also like to say that when the Polam Pila factory appeared on the list of uncompleted industrial facilities, the Czechs were willing to grant us credit amounting to 8 million dollars to finalize the investment, guaranteeing for themselves deliveries of glass balloons over a period of 10 years for their electric bulb production.

Insofar as our cooperation with Hungary is concerned, we are exporting color picture tubes in return for television receivers in kits, i.e., sets of complete parts for assembly. This makes it possible for us to increase our production of OTVC sets for the domestic market. We are also selling mini-towers, i.e., complete sound sets and radio tape recorders. We are also selling active and passive devices. It should be emphasized that the Hungarians were the first of our partners in the socialist countries to propose that they would refund our foreign-exchange input if we would send them the equipment they needed.

The GDR is purchasing reel-to-reel tape recorders from Poland and is interested in hi-fi sets. UNITRA, on the other hand, intends to import mini-towers from the GDR so as to at least in part cover the domestic demand for this equipment. The Germans are developing the production of electronic equipment in popular use, based on their own technology, and are becoming increasingly more competitive with us on the foreign markets.

Our cooperation with Bulgaria is not proceeding as well: exports are totaling 500 million zlotys, while imports are less than 300 million zlotys. The Bulgarian producers bought several foreign licenses which they are not able to do anything with, although it might be possible for them to use them if they would agree to make them available to our industry on a partnership basis, if the conditions of the licensing agreement permit. Thus far this has not been successful, and we need some products very much, e.g., specialized quartz elements produced on a Japanese license. For years we have been trying to get such supplies, but we are only getting small batches.

[Question] And would it not be well for Poland to develop broad cooperation within the framework of CEMA?

[Answer] T. Kosecki: We also expected that our partners would help us. After all, this expectation was based on the declarations that Gen Jaruzelski received during his visits to the friendly countries in our time of crisis. Still, as the summary of exports and imports in the first payments area shows, with the exception of the USSR we are exporting more than we could have imported. I believe that our partners who have interesting goods would rather sell them elsewhere. At the same time it must be said that the nonmarket cooperation between the industries of the CEMA states is developing well, particularly in the professional fields.

T. Kaczmarek: Insofar as the second payments area is concerned, our main sales markets are the FRG, France, the United States, Spain, Sweden and Denmark. We are selling record players produced in the Fonica plants, various types of radio receivers from the Eltra and Dora plants, and mini-towers. The French market for our products has shrunk due to protectionist measures introduced by the French government. Specifically, we have had to stop selling speakers, record players, amplifiers and tuners to Thomson-Brandt. We are now exporting over 100,000 portable radios to France each year, adapting their construction to the customer's wishes. In addition, we have had to stop selling to Grundig because their price proposals for radio tape recorders were unacceptable to us. At present, UNITRA is exporting mini-towers to various firms in the FRG, firms such as HGS and Brune. Through our company, UNITRONEX, we are selling loud-speaker boxes, speakers, and light sources to the United States, despite the fact

our market there has also declined due to economic sanctions. Overall, as a result of the protectionist decisions of the governments of the United States, the FRG and France, UNITRA's exports have dropped 8.3 million dollars a year.

T. Kosecki: It would be well to say a few words about the export of light sources, which make up a considerable part of our sales. Their assortment varies, beginning with the main-series light bulbs, bulbs for vehicles, and halogens, down to small light bulbs such as glow-tube lamps, illumination lamps (printing), and Christmas-tree bulbs. We sell them to the Thomson-Brandt and Canetti firms in France, to the FRG, Great Britain, the United States, Turkey, Italy, Saudi Arabia, Kuwait, and the socialist countries. Exports from POLKOLOR are a separate subject. This factory sells picture tubes and their glass elements abroad and thus self-finances its production. As provided in a long-term contract with Corning Glass Works, which made its know-how, technology and certain equipment available to us, we sell Corning France picture-tube glass elements. We also sell these products in Turkey, India, Hungary, Bulgaria and the GDR. The socialist countries refund our foreign-exchange input, which makes it possible for UNITRA to import the materials needed to produce picture tubes.

[Question] How do sales of subassemblies, which are the starting item for the production of equipment, look?

T. Kosecki: It is quite hard to sell them because the market is highly competitive. Everyone is producing a lot, well, and cheaply. Most of the export of subassemblies is to the socialist countries and also, in accordance with a long-term contract, we are selling certain amounts to Thomson-Brandt and IBM in France and to Gupta in India.

Insofar as export to the capitalist countries is concerned, it is limited to subassemblies and machines which are indispensable as a result of a licensing agreement entered into during an earlier period.

T. Kaczmarek: I would like to mention that export contracting last year was higher than had been foreseen in the plan, for it amounted to 4 billion zlotys. But in fulfilling this plan we encountered some surprising difficulties even from the shareholders of our company. Some factories, such as Fonica and Dora, sold goods intended for sales abroad to the domestic market. This occurred because they are getting higher prices here in the country than in export. This fact illustrates a weak point in economic reform, of which I am an advocate and implementor. That is, the factories willingly offer goods for export and cooperate with us until they receive their foreign-exchange allowances, and then they are more interested in selling their products on the domestic market. Another example of the weakness of economic reform in the area of foreign trade are the Polam plants in Pila, which obtained a license to conduct foreign trade. UNITRA exported light bulbs valued at 500-600 million zlotys annual from this factory. However, the producer, as a licensed factory, provided in his plan for 1983 for export valued at only 85 million zlotys. I believe that if economic reform in foreign trade is to produce a drastic drop in exports, then such anomalies should be removed and that the order that previously existed in this area should be restored.

T. Kosecki: Furthermore, the POLAM Pila factory, wanted to be "competitive", offers light bulbs at prices much lower than those obtained by UNITRA. As a result our national economy suffers and not just our company, in not fulfilling its plans. The point is not just to sell, but to sell well.

[Question] Is the form of the company into which UNITRA transformed itself conducive to cooperation with the plants and does it contribute to a polarization of interests of the producer and the trader?

T. Kaczmarek: The change in the organizational form was not a measure calculated solely for effect. The factories which became part of our company are integrating with us, are offering goods, and except for the small shortcomings mentioned, cooperation is going well. However, we have no influence on the activities of the "lone rangers", such as POLAM Pila.

P. Swiecki: At present we have 32 shareholders. These are principally producers of general-use electronics equipment and subassemblies. Of the plants which recently joined the company, most are from the POLAM illuminations subsector. They did not form an association and have no forum for the exchange of experience, or another base for integration. This is possible within the framework of our company. We also have a list of enterprises who have declared their readiness to join the company.

[Question] What are UNITRA's plans for the future in view of the avalanche of new developments in the electronics industry and the decreasing chances of being able to maintain general-use electronics equipment at a world standard?

T. Kaczmarek: During the 1970's a good deal of money was invested in the electronics industry; however, recently this field has been neglected. Yet each year's delay means a loss of several years. Last September the Internationale Funkausstellung 83 exhibit was held in West Berlin and we were able to compare the modernity of products made throughout the world with ours. Unfortunately, we are behind.

T. Kosecki: There is a lack of cooperation by the scientific-research facilities of the electronics industry, which still exist--I repeat, still exist--with the development offices of the factories, with the producers and trade. It was hoped that Council of Ministers Resolution No 77, pertaining to the electronization of the national economy, would produce some changes, but the funds allocated for export production as a result of this resolution are very meager, for understandable reasons. As a result we face the problem of where we stand among those who have something to say in video engineering, without which in a few years we will be of no importance. And there is no money for this purpose.

T. Kaczmarek: We must obtain the patents of foreign companies. They are very expensive. We had offers in which the price amounted to several hundred thousand dollars, e.g., in the area of laser record players. I would also like to call attention to the matter of picture tubes which are now being produced in a thin-line form. And we are doing nothing on this.



[Question] Therefore, what is UNITRA's future as an exporter?

T. Kaczmarek: We will be able to maintain ourselves on the market for the next few years because there are still purchasers for our products. After all, not everyone buys expensive merchandise.

T. Kosecki: Our electronics industry is in a difficult situation. Our problem at the moment is not whom to sell to, and how, but what. That is why the producers are not looking for anything new. Even if something is not sold abroad the producers can always sell their equipment here. But what will happen after several years?

T. Kaczmarek: We do not want to be pessimistic. We believe that if industry maintains its present level of manufacture, our sales are ensured for a couple of years yet. However, we must think about finding money to modernize production and develop new items, the introduction of which in our country takes at least 5 years.

T. Kosecki: The rich, highly developed countries such as Japan many years ago developed special, state-subsidized organizations for the development of basic research in the field of electronics, including integrated circuits.

T. Kaczmarek: We can create new needs on the part of customers. For example, television games would be in great demand, and they would be a lucrative business both here and abroad, but such ventures require investment. It would be possible to sell the software for such games. But at the moment we do not even have ordinary cassettes.

[Question] Have you tried recently to enter into coproduction arrangements with the more advanced countries, such as Japan?

T. Kaczmarek: We can try, but here again there are the financial conditions which we cannot fulfill. Previous coproduction arrangements, e.g., with Grundig, were very unfavorable to us and too short-ranged. Possibly we should allow some foreign partner to enter into a capital-investment arrangement, since the costs of new developments are rising at a very high rate. Electronics is linked more and more to information science, with the transfer of data. New cable television links are being developed and the production of mini-computers and personal computers is increasing, and these matters continue to be far out of our reach.

P. Swiecki: I would like to call attention to the matter of patent applications abroad. Regulations require that the industry-applicable foreign-trade organization approve the purpose of the application. In the last 2 years only one such application came to me, while the number of applications made by the General-Use Electronic Equipment Main Research and Development Center to the Government Patent Office was much greater. Inventions in the electronic field are extremely important. It is sufficient to see what others are doing. There are institutions abroad, employing hundreds of workers, who concern themselves solely with collecting patents and passing on their usefulness.



[Question] In an interview for POLITYKA early in 1983, director Osinski from the Kasprzak Radio Factories said: "Why not take our electronics into the Third World markets?" What do you gentlemen say to that?

T. Kaczmarek: In order to enter those markets one must be rich, be able to give credit, have equipment which is adapted to tropical conditions, and ensure that service will be available. Furthermore, there are tariff barriers, i.e., very high protectionist tariffs, often ten times higher than those ordinarily applied, and there are also government quotas (e.g., in Algeria) which restrict sales. If we could overcome all these obstacles undoubtedly we could export to these countries. At the moment, we are continuing in the Third World countries to solicit orders for equipment assembly shops, which are beneficial to them because they create new workplaces. Light bulb factories built by UNITRA are operating in Nigeria, Morocco and India, among other places.

[Interviewer] Thank you, gentlemen, for the interview. I believe that it would be well to return to these problems shortly.

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CSO: 2600/603

# ECONOMIST'S CRITIQUE OF REFORM CHANGES DRAWS REBUTTAL

Warsaw RZECZPOSPOLITA in Polish 12 Jan 84 supplement REFORMA GOSPODARCZA p 1

[Article by Wladyslaw Baka, minister-commissioner for economic reform:  
"Toward Target Solutions"]

[Text] Issues 30 and 31 of REFORMA GOSPODARCZA contain a packet of legal acts that modify certain systemic solutions.

Resolutions defining the parameters of activity of enterprises in 1984 that were adopted in the CPR [Central Annual Plan] and in the credit plan were also presented.

Work on amending certain regulations connected with economic reform commenced in March 1983, together with acceptance by the Council of Ministers of the report on implementation and results of the 1982 reforms. The Sejm resolution of June 1983 concluded the first phase of the work. The second phase included preparation of the complicated document, "Courses Toward Augmenting the Principles and Correcting the Mechanisms of Reform," which was approved by the Council of Ministers on 16 August 1983 and published in REFORMA GOSPODARCZA No 24. This document formed the substantial basis for the third phase which included the legislative work of the Sejm and the government that ended with passage of the law changing certain laws that established the economic reform, laws on the State Fund for Vocational Activization and a number of executive acts.

These modifications begin a new stage of implementing economic reform, the stage in which systemic solutions are the same, but closer to the end-point solutions than in past year. They are not, however, properly understood in all places. Views have also been expressed that the corrections introduced are a departure from the principles of the reform. An example of this is the letter recently published in one of the weeklies [ZYCIE GOSPODARCZE No 51-52, 18-25 Dec 83 p 7; see EAST EUROPE REPORT: ECONOMIC AND INDUSTRIAL AFFAIRS, EEI-84-007]. First, this letter questions the basis for making changes ("Why do we lack the amount of patience necessary to let enterprises operate according to unchanged rules for 3 to 5 years?").

Second, it undermines the character of the modifications introduced ("Why during the last 2 years every time changes in /principles/ [author's emphasis]a")

of economic reform are justified, the argument is made, contrary to /facts/ [author's emphasis], that it is in keeping with the spirit of the reform and serves to bring it to its initial form and purpose?").

The status of the author and where the letter was published may create an impression of competent opinion in this essential matter. This places the official interpretation of changes made in an ambiguous (actually an unequal-vocal) light. The matter has all the greater significance since the statements made above comprise the basis for a thesis of a general character ("Why again does no one want to take a look at the confused history of the realization in our country of changes in the system of managing the national economy and why does no one want to draw conclusions from it?") This is not true. This time conclusions have been drawn especially so that "history should not repeat itself," so that the process of reforming the economy would go forward along the line proposed by the Ninth Congress. The basis for this statement is the penetrating analysis of transformations taking place in the method of functioning of the economy and the systemic modifications introduced as a result of the "Directions for Economic Reform" adopted by the Ninth Congress. Following are the three most important substantive points.

Point One: Would it be possible and justified to adopt unchanged solutions beginning with 1 January 1982, for a period of 3 to 5 years? It might have been possible, but it would have brought fatal consequences together with compromising the idea of reform. It would have been contrary to the demands of reality.

Under the concrete conditions of the Polish economy, successive adaptation of many elements to a changing situation was indispensable. It was indispensable specifically so as to hold the line and to reinforce the principles of reform in practice. Such a requirement was established from the start, and found expression in the prescription contained in "Directions for Economic Reform." Here it is specifically stated (proposition 110) that "after introducing the crucial reform package, a 2- or 3-year transitional period will probably be needed. During this period successive changes will take place that will deepen the reform and lead to the target system. Simultaneously, solutions will be adopted which will differ from the target solutions. As far as possible they will be selected in such a way as to avoid collision with the logic of the new system, and, in the worse case, in such a way that collisions will be least painful and of the shortest duration." Practical experience has confirmed the validity of this assumption. For example:

1) Under the conditions of the "price revolution" that occurred in our economy during the first phase of the reform, it was necessary to adopt a progressive form of assessing profit in order to close off the income fumeroles that frequently developed as a result of changes in price structures. Today this is no longer necessary. Whether manufacturing costs were the best basis for computing profitability on which the assessment scale was based is open to discussion. It is true, however, that in the first phase there were no conditions on which to base a linear tax. Such conditions are developing only now, after the establishment of a basis for reform, specifically a whole price structure and a system of other taxes.

2) Under conditions of an enormous drop in import of supplies and numerous, serious disturbances in the functioning of enterprises, it was difficult at first to make increases in remuneration dependent on net increase in production; such conditions developed as time passed.

3) In the face of an extreme scarcity of means during the first phase of the reform, in some sectors, in the operational programs, methods had to be adopted that were of decisive significance for the functioning of the economy and meeting social needs. This was all the more the case since at that time an alternative method for government orders consistent with the principles of reform had not been developed. Today the range of operational programs is significantly limited.

Examples can be multiplied. To the extent that management conditions have been improved, and taking practical experience into account, systemic corrections were introduced on the principle of "as much stability as possible, as many changes as necessary." Certainly in some sectors concepts or skill were lacking and corrections were made somewhat too often. This is true, for instance, of the methods of computing net production. On the whole, however, with the passage of time systemic solutions approach the target solution ever more closely and take economic realities into account at the same time. Owing to this, systemic solutions during 1983 were closer to the target model than those of 1982, and corrections being introduced currently will make the system of functioning in 1984 even closer to the ultimate system than the system was in 1983.

Point Two: Quite frequently we meet the view that a change in some element in the mechanisms of functioning of the economy is a departure from the principles of reform. This is certainly why these matters are pointed out in the letter cited. This is obviously a misunderstanding. The reformed method of functioning of the economy is defined by three factors. These are:

a) the principles of reform adopted by the Ninth Congress, specifically the principle of socializing planning as a method of determining goals and strategy for economic development; the principle of central shaping of the basic proportions of the dynamics and structure and mechanisms as functioning of the economy; the principle of independence and self-financing of enterprises; the principle of exploiting economic tools and market mechanisms to insure agreement between enterprise activity and the common good; the principle of rule of law in relations between administrative organs and enterprises; the principle of self-government of personnel. These principles form the unshakable foundation of the whole reform;

b) systemic-organizational solutions. As examples we might name the tax system, the price system, the financial system of enterprises and the government, the credit system, the organization and system of handling foreign trade, organization and system of investments, etc. These solutions have a relatively stable, but evolutionary character. Here we should note the rule that the deeper the changes taking place in economic conditions, the greater and more



rapid the transformation to which systemic solutions are subjected. As conditions of economic activity are stabilized and experience is acquired, the period of applying concrete systemic solutions is prolonged. Changes made thus far significantly increase the stability of the system, and this in itself creates long-term perspectives for economic organizations. Everything points to the possibility that the new principles of taxation based on income tax, the modified principles of pricing, etc. will persist for a significantly longer period than 2 or 3 years;

c) economic tools and parameters such as prices, rates of interest, currency exchange rates, debts, etc. These elements must be mobile. If they were fixed, it would mean the loss of the central key to controlling the factors acting on enterprises and on the course of economic processes. No government in the world can allow this. This would be totally contrary to the idea of active control of socioeconomic development with the planned character of a socialist economy. With petrification of economic tools (or giving these tools up), we would become slaves of a rigid system--contrary to logic, contrary to present demands, and contrary to social needs. It is obvious that the more stable the economy is, the less intensive are the changes in the parameters of action.

The changes introduced do not in any way violate the principles of reform; they increase the stability of systemic solutions and increase the consistency and effectiveness of the economic tools used through their close ties with the Central Annual Plan.

Point Three: It is easy to prove that the systemic corrections introduced bring the whole mechanism of the functioning of the economy closer to the target model. If one were to ask if the newly introduced principle of linear income tax meets the goals of the reform better than the principle of progressive tax based on processing costs, the answer would have to be yes. If one were to ask if the system of government orders based on principles of general bidding on the basis of efficiency, organized by the individual who is placing the order is closer to the ideas of the reform than a system of operational programs, the answer would have to be yes. If one were to ask if the correction to regulations granting enterprises the means for bonuses and introducing (at this time on an experimental basis) new principles of bonuses in enterprises is closer to the ideas of the reform than solutions applied thus far, the answer would have to be yes. If one were to ask if introducing designated rigors (justified costs) with respect to contractual prices and increasing the possibility of state organs acting on prices is closer to the principles of the reform than the situation that has existed thus far, then despite the fact that the matter is controversial, in the last analysis we would have to admit that in the concrete conditions that obtain today and can be anticipated for the near future, the answer would have to be yes. Finally, if one were to ask if the changes in the basis of financing voluntary associations will promote the forming of a function of associations and their relation with enterprises in accordance with the principles of reform, then the answer would also have to be yes. The character of the five most essential changes that were introduced in 1984 unequivocally indicates the evolutionary direction of the system of economic functioning. It is undoubtedly the target model for the functioning of the economy defined by the Ninth Extraordinary PZPR Congress.



ECONOMIC PERFORMANCE IN 1983 BARELY BEGINS TO MAKE UP FOR LOST GROUND

Warsaw ZYCIE GOSPODARCZE in Polish No 4, 22 Jan 84 pp 1, 9

[Article by Marek Misiak based on a survey of official statistics compiled by the Main Statistical office and the National Bank of Poland]

[Excerpts] Table 1 [attached]

Table 1.

Specification	The same period of 1961 = 100				Absolute figures				The same period 1962=100				
	2	3	4	5	6	7	8	9	10	11	12	13	14
<b>INDUSTRY</b>													
Solid production of socialized industry (at 1962 . producer prices), in billion roubles	111.4	98.3	607.9	616.8	630.1	7,258.5	104.0	103.5	100.4	106.7			
Average employment in socialized industry, in thousand persons	95.6	94.8	4,443.9	4,493.3	4,448.1	4,030.7	99.2	99.2	99.3	99.0			
Solid production per employee of socialized industry, in thousand roubles	116.5	103.7	136.8	141.2	141.7	1,618.2	104.9	104.3	101.5	108.2			
Average monthly wage in socialized industry in roubles <sup>1</sup>	166.4	154.8	16,086	17,442	19,186	15,721	123.0	124.5	108.5	127.5			
Production of selected commodities:													
--coal, in million tons	117.2	116.0	16.1	15.6	16.1	191.1	101.0	101.0	104.1	100.9			
--electricity, in million kWh	112.9	102.2	11.2	12.0	12.8	125.8	109.5	109.2	106.9	107.0			
--crude steel, in thousand tons	142.8	92.1	1,432.7	1,343.7	1,393.9	16,236.0	109.2	104.4	107.2	109.7			
--farm tractors, in thousand pieces	124.6	104.9	4.6	5.0	4.6	55.5	102.9	110.9	103.0	104.7			
--passenger cars, in thousand pieces	224.0	95.5	25.4	25.2	25.0	270.2	99.7	95.2	104.1	118.3			
--household washing machines and electric spin-driers, in thousand pieces	110.3	87.7	60.0	65.6	60.7	703.7	112.4	116.0	109.2	112.9			
--TV sets, in thousand pieces	128.5	75.4	50.0	48.1	49.7	566.5	85.3	90.9	79.2	98.3			
--nitric fertilizers, in terms of N <sub>2</sub> , in thousand tons	115.4	101.9	113.3	112.4	107.3	1,341.4	100.9	96.7	90.8	103.4			
--plastics, in thousand tons	117.8	92.1	46.4	39.1	44.3	525.4	113.6	96.9	102.6	116.5			
--cement, in thousand tons	173.5	112.7	1,336.7	1,274.8	1,208.9	16,181.3	104.3	97.3	92.6	100.9			
--footwear (without rubber boots), in million pairs	134.0	100.1	12.5	12.6	12.3	140.5	101.6	100.1	108.9	109.7			
<b>CONSTRUCTION</b>													
Base production of socialized construction/assembly enterprises, in billion roubles <sup>1</sup>	134.6	94.1	65.7	64.6	59.1	737.6	102.5	101.0	95.0	104.4			
Average employment in socialized construction/assembly enterprises, in thousand persons	96.0	93.5	889.4	891.2	893.0	884.4	99.2	98.6	100.4	98.7			
Base production per employee of socialized construction/assembly enterprises, in thousand roubles	136.9	100.8	73.9	72.5	66.2	834.1	103.3	102.4	94.6	105.7			
Average monthly wage in socialized construction/assembly enterprises in roubles <sup>1</sup>	190.7	144.3	16,014	16,537	18,678	14,829	131.1	122.4	113.4	128.7			
Building starts in socialized construction, in thousands	129.9	92.7	7.1	10.3	32.1	136.8	84.9	83.1	95.1	105.2			
Area of new dwellings handed over in socialized construction, in thousand square meters	126.9	92.4	388.9	558.2	1,741.4	7,370.7	85.8	84.7	96.9	104.7			

	1	2	3	4	5	6	7	8	9	10	11
						AGRICULTURE					
Livestock procurement, in terms of meat, in thousand tons		109.2	100.4	142.8	147.6	122.6	1,764.6	92.8	84.0	74.4	93.3
Milk procurement, in million liters		108.7	100.6	944.8	730.6	709.4	10,717.1	113.8	113.9	111.9	114.9
Egg procurement in million pieces		72.2	83.3	201.9	213.3	178.9	2,843.2	137.4	133.9	108.5	95.5
						TRANSPORT					
Cargo carried by specialized transport, in million tons		81.5	88.0	93.6	92.4	85.2	1,085.0	99.7	97.9	94.9	101.6
of which:											
—by rail (standard gauge)		123.9	100.2	35.1	34.6	32.4	407.0	103.0	102.0	98.3	103.1
—by road (public and sectoral transport)		114.5	80.1	51.2	51.2	45.9	583.8	99.1	98.5	92.9	100.3
Transshipment at commercial sea ports, in million tons		174.6	104.5	3.6	3.9	4.0	46.4	96.9	107.1	104.6	118.2
						FOREIGN TRADE					
Exports, total in billion sloteys <sup>1</sup>		143.0	112.4	80.0	98.3	118.2	1,041.1	111.0	107.2	88.1	109.5
—payments zone I		152.7	120.7	39.7	49.6	54.2	511.0	107.8	112.2	84.1	110.1
—payments zone II		134.5	105.5	40.3	48.7	62.0	530.1	114.3	102.5	92.1	108.8
Imports, total, in billion sloteys <sup>1</sup>		180.7	90.2	75.2	96.7	119.2	941.4	117.3	112.2	99.2	110.6
—payments zone I		97.2	101.9	44.8	59.3	69.5	542.3	119.3	117.8	104.6	111.7
—payments zone II		105.4	77.9	30.4	36.8	49.7	399.1	114.5	104.2	92.6	109.2
						CONSUMER MARKET SITUATION					
Population's money income in billion sloteys		177.4	142.9	342.0	407.4	408.2	6,274.3	115.3	119.1	112.5	134.7
Population's money expenditures, in billion sloteys		184.6	146.6	349.6	380.3	407.1	5,982.4	124.9	127.2	122.8	131.3
Retail sales (at current prices), in billion sloteys		200.6	176.6	310.7	320.8	358.2	5,446.3	121.3	125.0	120.9	130.5

<sup>1</sup> Including employee cost-of-living pay supplements and profit-financed pay components

<sup>2</sup> Value of production at current prices, dynamics indices at constant prices

<sup>3</sup> At current prices

Note: The data are of preliminary character, and may be changed later.

Source: Central Statistical Office (CPS)

Table 2. Structure of the Population's Money Incomes and Expenditures

Specification	Dec*	Jan-Dec*	Annual plan= 100	Dec*	Jan-Dec*
	In billion zlotys	In billion zlotys		The same period of 1982 = 100	
Incomes total	408.6	4,274.3	113.3	112.5	124.7
of which:					
--wages	216.4	2,204.4	110.8	114.1	125.6
--social benefits	65.9	753.6	101.1	115.5	119.4
--credits received	12.2	149.1	120.9	88	127.4
--earnings from sale of farm produce	60.2	716.5	121.4	100.6	116.9
Expenditures total	407.1	3,982.4	111.5	122.8	131.3
of which:					
--purchase of goods	340.8	3,245.1	107.8	121.7	129.8
--purchase of services	39.6	442	127.8	120.1	139.9
--taxes	10.6	115	136.7	141.3	153.8
--credits repaid	7.8	77.4	117.3	127.1	131.5
Changes in the state of population's money reserves	1.5	291.9	145.9	4.6	73.9
of which:					
--savings deposits	37.9	192	192	92.7	95.4
--cash	-36.4	99.9	99.9	x	51.6

Source: National Bank of Poland [NBP]

[\*In the original ZYCIE GOSPODARCZE text this month is given as X (October) but this is apparently a misprint. The corresponding month in previous month's statistics was November.]

**National Income.** For the first time since 1978, there was a year-on-year increase in national income produced--by nearly 5 percent according to preliminary estimates. As compared to 1978, the 1983 figure was around 20 percent lower.

**Industry.** Increase in socialized industry's sold production was 3 points higher than provided for in the CAP for 1983. Compared to 1979, industry's sold production was 10.3 percent lower, and after adjusting for shorter working time 6.8 percent lower. Solid production per 1 worked manhour was 3.1 percent higher in 1983 as against the 1979 level. Compared to 1982, production per manhour was 6.0 percent higher.

**Construction.** Housing starts were 19 percent above the plan target, but their absolute number stayed at the level of the late 1960's and early 1970's. The average area of handed over dwellings continued to increase--from 50.8



square meters in 1978 to 53.1 square meters in 1982 and 53.9 square meters in 1983. The number of dwellings in houses under construction stood at the end of 1983 at 128,000, or 32.3 percent less than at the end of 1982.

**Agriculture.** Global farm output in 1983 was 3.6 percent above the 1982 figure. Crop production rose 6 percent, and animal production increased 1 percent. Free-market prices of grain and potatoes were higher in December--2,500 zlotys on average per 100 kg of grains, and 1,100 zlotys per 100 kg of potatoes--as compared with the previous month. An average 4,000 zlotys was asked for a piglet. Compared to December 1982, the prices of grains and potatoes were lower by respectively 16.1 percent and 15.2 percent, while piglet prices were twice as high.

**Transport.** The average daily number of unserviceable rail cars stood at 37,600 in December 1983, or 8,600 less than in December 1982, and 1,900 less than in November 1983. The average rotation period for a goods car was 5.62 days--0.39 of a day longer than in November 1983. The serviceability index for the vehicle fleet was 0.748 (against 0.724 in 1982).

**Monetary and consumer market situation.** Retail sales of goods, at constant prices, recorded a 4 percent December-on-December increase. Sales of food and nonfood articles increased 3 percent and 11 percent, respectively, while alcoholic drinks sales dropped 15 percent. Goods shipments to the consumer market totaled 359.5 billion zlotys in December 1983 (at current prices), or 18.9 percent more than in December 1982. The figure for the whole year 1983 was 3,663.1 zlotys, representing a 28.3 percent increase on 1982.

After 4 years of uninterrupted decline in national income produced, the year 1983 brought about an upturn. Last month a 3.5-4.0 percent year-on-year increase was predicted in this paper, but now it appears that the actual growth may be 0.5-1.0 points higher. But it should be kept in mind that even a 5 percent increase in national income produced in 1983 will not make up for the combined decline of 23.5 percent, recorded in the preceding 4 years.

This is all the more true of national income for distribution. After a 30.3 percent drop in 1978-1982, it is now initially assessed as rising 3-4 percent in 1983--or 2-3 percent in per capita terms (Poland's population increased in 1983 by around 1 percent against 1982). This shows that, even with the upturn, we are at the very beginning of the road of recovery.

#### Level and Structure of Production

This opinion is confirmed by statistics on the level and structure of production. With some satisfaction, we can observe that the annual growth-rate index for socialized industry's sold production is exactly the same as we predicted--6.7 percent. The December-on-December increase was only 0.4 percent, which was caused by both the fourth quarter slow-down in upward trends characteristic of the previous quarters of 1983, and the fact that December 1983 was 2 working days shorter than December 1982.

The 6.7 percent increase in industrial production in 1983 is 3 points higher than the CAP target of 3.7-4 percent. But here again, just as in the case of

national income, one should remember that socialized industry's output in 1982 was 16 percent below the 1979 figure. So, despite the 1983-on-1982 increase, it was still 10 percent below the level of 1979.

Needless to say, the above indicators were calculated in comparable prices. At current prices, socialized industry's sold production last year was 23.7 percent above the 1982 level. The index of price increase for this production, computed on the basis of a representative sample, stood at 15.9 percent.

Output dynamics in manufacturing industries was higher than in mining industries--respectively 7.1 percent and 2.3 percent.

There is a less favorable picture when it comes to the structure of industrial production according to the mode of its utilization. The 1983 plan provided for an 8.3 percent increase in consumer-market deliveries--both domestic and imported. But the actual increase is estimated at 4 percent (meaning an 18 percent drop from the 1979 level). This means that the share of consumer goods in total industrial production actually decreased in 1983 (against 1982)--instead of rising, as planned.

Nor can one draw satisfaction from export production developments. It did rise 8 percent on the 1982 figure, which is 1.3 points higher than the growth of industrial production as a whole--but the CAP provided for a 3-point spread. This means that the share of export production in total industrial output was increasing slower than planned.

Base production [produkcja podstawowa] of construction and assembly enterprises went up 4.4 percent in 1983 on the 1982 figure. But the latter was 34.3 percent below the level of 1979, which means that the 1983 production was 31.4 percent down from 1979.

The 1983 level of housing starts--136,800--was 5.2 percent higher than in 1982 but 33.2 percent lower as compared with 1979. The respective figures for the total area of handed over dwellings was 6.7 percent increase and 31.5 percent decline.

The tonnage of cargo carried on standard-gauge railroads increased 3.1 percent on 1982 level, but was still 13.5 percent below the figure for 1979. In road transport (public and sectoral), the 1983 figure was 0.3 percent up on 1982 and 44.4 percent down from 1979.

In agriculture, some progress is reported in crop production (by 6 percent). Food-grain procurement from the beginning of the season till the end of December 1983 totaled 4.6 million tons, splitting into 1.4 million tons from socialized farms and 3.2 million tons from private farms.

There is a worse situation in animal production. Livestock procurement (in carcass weight, in terms of meat) stood at 1,765,000 tons--6.7 percent down from 1982 and 33.5 percent down from 1979. The greatest decline was reported in hog procurement (respectively 10.4 percent and 35.1 percent).

On the foreign trade front, exports at current prices rose 9.5 percent against 1982 and 9.1 percent against 1979. The respective figures for sales to payments zone I were 10.1 percent and 15.8 percent, and for sales to payments zone II 8.8 percent and 4.4 percent.

Imports went up 10.6 percent against 1982 and dropped 4.6 percent from the 1979 level. The respective figures for payments zone I were 11.7 percent up, and 27.6 percent up. This high increase was caused primarily by increase in the prices of crude oil and other items purchased from that area. Under the intra-CEMA pricing procedures, it was only after 1980 that the oil price rises of the latter half of the 1970's were reflected in the prices of oil imports from the USSR.

Imports from payments zone II rose in 1983 by 9.2 percent on the 1982 figure, which was 36.8 percent down from the 1979 level. Despite some increase, imports from that area were running at a much lower level as compared with the 1970's. As is known, the steep decline in purchases from payments zone II is caused by the necessity of servicing foreign debt in conditions of unfavorable international business trends and [Western] restrictions.

#### Employment and Wages

Employment in the four major sectors of the economy stood in 1983 at 7,665,000 persons—down 0.2 percent (37,000) from the 1982 level. In socialized industry the figure was 4,431,000, representing a 1 percent (44,000) drop from 1982 and a 6.8 percent (299,000) decline from 1979. Employment in socialized construction/assembly enterprises totaled 884,000 persons and was lower by 1.3 percent (11,000) as compared with 1982 and by 15.5 percent (137,000) as compared with 1979.

The average monthly wage in the four major sectors of the economy reached 14,724 zlotys in 1983, increasing 23.5 percent on the previous year's level. The figure for industry was 15,721 zlotys (increase by 28.5 percent). With the 23-24 percent rise in the costs of living, the real increase in average monthly wage in industry can be estimated at 3.6-4.5 percent. In mining, the average wage was 27,273 zlotys (nominal increase by 18.8 percent), and in manufacturing it stood at 14,127 zlotys (increase by 29.5 percent).

The seasonal December-on-November increase in four sectors' wages was much lower in 1983 as compared with 1982—respectively 1,510 zlotys (9.2 percent) and 3,327 zlotys (25.1 percent). This is because the payment of year-end bonuses for financial performance—which in 1982 was made in advance in December—is now shifted to the first quarter of 1984.

#### Consumer-Market Situation

Despite some slow-down in the December dynamics, the nominal wages rose substantially throughout 1983 (25.6 percent)—much above the CAP target of 13 percent. This was also the case with other components of the population's money incomes. For example, farmer earnings from the sale of agricultural articles to the state were 21.4 percent higher than provided for in the plan. It was only in social benefits that actual pay-outs were close to the CAP

target (increase by 1.1 percent). Total money incomes of the population were 13.3 percent above the CAP target.

The population's money expenditures were higher than planned, too. They increased 31.3 percent on the 1982 figure, exceeding the CAP target by 11.5 percent. Expenditures on the purchase of goods and services were respectively 7.8 percent higher and 27.8 percent higher than the corresponding CAP targets.

Changes in the pattern of retail sales of goods in 1983 (against 1982) included: decline in the share of foodstuffs (from 36.4 percent to 33.2 percent) and increase in the share of nonfood articles (from 50 percent to 57.2 percent) and alcoholic drinks (from 13.6 percent to 14.6 percent).

When preliminarily adjusted for price increases, the retail sales of goods were 5 percent higher in 1983 as compared with the previous year. Sales of nonfood articles increased during that time by 10 percent, food dropped by 1 percent, and alcoholic drinks stayed at the 1982 level.

Increase in the population's money reserves (or the difference between incomes and expenditures) stood in 1983 at 292 billion zlotys, or 24 percent less than the 1982 figure of 388 billion zlotys. The population's money reserves thus reached the level of 1,730 billion zlotys, against 1,438 billion zlotys at the end of 1982.

Saving deposits increased in 1983 by 192 billion zlotys (the 1982 growth was 198 billion zlotys), up to 1,070 billion zlotys. The amount of cash held by the population rose by 100 billion zlotys (against 190 billion zlotys in 1982) to reach 660 billion zlotys at the end of 1983.

All this reflects a substantial surpassing of CAP targets, both for the population's incomes (by 13.3 percent) and expenditures (by 11.5 percent). The increase in the population's money reserves [cash plus savings deposits] was 45.9 percent higher than planned, and the whole above-plan increment took the form of higher-than-planned (by 92.7 percent) increase in saving deposits. Increase in the amount of cash held by the population was close to the CAP target.

The year 1983 was marked by a reversal of downward production trends from 1979-82. But the increase was still insufficient, considering the scope of the previous year's decline.

The consolidation of upward trends in the economy will require an economic policy under which production growth would be accompanied by more favorable structural transformations, towards greater share of consumer and export production, and by stronger influence of the reformed mechanisms of the functioning of the economy.

Production for the domestic consumer market and for export requires that highly competitive systems of motivation--vis-a-vis production-supply and capital-equipment production--be provided. In many enterprises, and even whole



industries producing for the consumer market, it is still very difficult to attract workforce and to provide motivation stimulating the desired structure and quality of production.

Another condition for the consolidation of upward trends is the stronger efficiency-oriented impact of the reformed mechanisms upon raw material economies. One reason behind the increase in the share of production-supply output in total industrial production is the great absorptiveness of the raw-material market, which in turn comes as a result of traditional, extensive methods of economic development that persist in contravention of the spirit of reform.

CSO: 2600/630

## ENTERPRISES POLLED FOR VIEWS ON PRODUCT MIX, QUALITY IMPROVEMENTS

Warsaw ZYCIE GOSPODARCZE in Polish No 2, 8 Jan 84 p 12

[Article by Andrzej Szeworski: "Enterprises on Structure and Quality"]

[Excerpts] The third in a series of questionnaires of the National Economy Institute (GIN) on the functioning of enterprises in conditions of economic reform was focused on broadly understood expansion potential of economic units. In particular, we took interest in the scope and durability of changes in product mix and product quality.

#### Enforced Changes

No changes in production structure, as against the end of the 1970's, were reported by 19 out of the 54 questioned enterprises (or 35 percent). But only for two enterprises this was an adverse development.

In 12 percent of responding enterprises, production offer was expanded to cover new sophisticated products, and these changes were assessed positively. Much more often, the motive behind changes in product mix were production-supply, import and labor shortages. This motive was reported by 30 percent of the questioned enterprises. The changes consisted primarily in scrapping import-consuming items (e.g., in the food-producing, textile and chemical industries), reducing output with high-material content (e.g., in the machinery industry), scaling down labor-consuming production (mainly in the textile and precision-engineering industries), or, as some respondents put it, in "abandoning inconvenient production." Around 18 percent assessed these enforced changes negatively, while positive marks were given by 6 percent.

Changes in the structure of production in construction enterprises (9.2 percent of the sample) came as a result of either investment cutbacks or altered pattern of demand for construction services. This was reflected in a growing share of ancillary and infrastructure-related projects.

In sum, most of the surveyed enterprises (65 percent) reported changes in the commodity structure of production as against the end of 1970's. Twenty-four percent of enterprises assessed these changes positively--a result of the launching of new profitable products and of the adaptation to production-supply and labor constraints. In those enterprises where changes in product mix did appear but were assessed negatively (41 percent), more than half of the respondents wanted the previous product lines to be restored.

The question is: Why? We did not receive an unequivocal answer, so we are only left with guesswork. Most probably, different factors, or rather their combinations, were responsible for different cases. For some enterprises, new product mix is simply less profitable. For others, changes mean lower utilization of productive capacity or manpower resources. Still others are aware of unsatisfied demand for abandoned production.

We also analyzed changes in production structure in the first half of 1983 as against the 1982. In an overwhelming proportion of enterprises (61 percent) there were no such changes; in 16 percent they came as a result of production-supply shortages; a conscious choice and launching of new products for which new demand had emerged. The remaining enterprises did not answer on this point.

It should be added that steady changes in the structure of production are characteristic for some 7 percent of the surveyed enterprises (this reflects, e.g., adaptation to changing fashion in light industry firms and jobber production by capital equipment manufacturers).

Assessment of the discussed developments on the basis of enterprise answers has its weaknesses. First, the enterprises themselves decided what is and what isn't a major change in the structure of production (in which we were interested). Second, it is often hard to find out what criteria were adopted by a respondent in assessing individual phenomena. Although particularistic point of view was dominant, some assessments included elements of social-oriented evaluation.

Summing up, it can be stated that in the surveyed sample of enterprises, the crisis of recent years resulted in rather broad changes in the commodity structure of production. They seem to be of durable nature, since the 1983 structure of production differed from that of 1982 in 36 percent of enterprises. This is a welcome development, testifying to enterprise flexibility. But the marginal occurrence of conscious changes, reflecting adaptation to changing demand and fashion, must be assessed negatively. In other words, the flexibility is targeted inwards, at enterprise possibilities, rather than outwards, at the market and social requirements.

Against this backdrop, it is interesting to analyze enterprise interest in production-structure changes and its motives.

And so, 48 percent of the surveyed enterprises said they are not interested at all in such changes. Regrettably, only two of them gave reasons for this indifference, if not aversion--highly specialized equipment and production. In the group of those uninterested in changes were eight out of the nine construction enterprises represented in the sample.

As for the enterprises which took interest in changes, most linked this attitude to desire for higher profit. In some of these enterprises, production was covered to some extent by obligatory rationing (in the meat, footwear and metallurgical industries); and were it not for rigid central-distribution schemes, they would change the structure of production already now.

Around 6 percent of enterprises which expressed interest in changes but gave no motives said the possibility of changes is limited by rationing. The same proportion of enterprises said they are interested in product mix changes but are faced with the barriers of employment, capital depreciation, and production supplies. Interestingly, in 6 percent of enterprises, interest in changes stems directly from the desire to circumvent these barriers.

Emerging demand for new products stimulated interest in changes in another 6 percent of enterprises. Other motives behind interest in changes, stated by single enterprises, included: elimination of difficult technological processes, shortening of product range, and emphasis on longer series.

The obtained information indicates that the surveyed enterprises are equally interested and disinterested in changes in the commodity structure of production. Unfortunately, only a small fraction of respondents explained the reasons for indifference (perhaps they seemed to them patently clear). The scarcity of information does not permit any hypothesis here. As for the enterprises interested in changes in the structure of production, 35 percent (i.e., 18 percent of the whole sample) explicitly pointed out the desire for higher profit as their motive.

The remaining 38 percent of enterprises are guided by the desire to improve their situation, and their interest in the changes can be divided into active, reflected in concrete measures, and passive, as shown only in hopes. Fortunately, the former dominate in the queried sample.

#### Quality

In analyzing changes in the quality of production in the surveyed enterprises in the first half of 1983, we focused on identifying the causes and consequences of these changes, on monitoring the instruments which stimulate quality improvement, and on studying the enterprises' interest in higher quality.

Judging by the returns, there wasn't any drastic decline in product quality in the surveyed group as against the end of the 1970's. Decline in quality was reported by 22 percent of enterprises, its stabilization by 33 percent, and increase by as much as 41 percent. Two enterprises were unable to produce self-assessment on this score.

Only two enterprises among those claiming quality improvement pointed to its causes. In one case, this was the withdrawal of obsolete machinery, and in another the installation of new equipment. Two enterprises reported quality improvement despite marked deterioration on the production supply front. Also in those enterprises where quality did not change over the past few years, the stability was achieved despite tangible drop in the quality of production supplies, use of substitutes, and outflow of skilled labor.

In the 22 percent of enterprises with deteriorating quality of production, the most frequently mentioned causes included: drop in the level and quality of production supplies (e.g. yarn in the textile industry), necessity of using substitutes, import cutbacks, loosening of coproduction ties, and outflow of skilled labor.



It would be hard not to notice that the picture of product quality, as depicted by enterprises, is very bright. Knowing the realities as well as the producers' self-assessment, one is inclined to take it with a pinch of salt. There more so as only 22 percent of enterprises admits lower quality, while almost all of them complain of deteriorating supplies of raw-material and components.

We studied the impact of customer claims, contractual penalties, and state marks of high quality upon improvement in product quality. This impact proved infinitesimal. Customer claims influenced quality improvement in 33 percent of the enterprises, but they failed in as many as 55 of the enterprises (the remaining ones did not give information on the subject). The respective figures for contractual penalties were 28 percent and 67 percent.

The least influence is exerted by state marks of high quality, or something which optimists see as a major instrument stimulating higher quality. Only 16 percent of the respondents recorded their positive impact. To some extent, this is because few enterprises are granted such markets. But on the other hand, enterprises are of the opinion that applying for such marks is very troublesome, as compared with possible benefits.

Generally, it seems in the light of questionnaire returns that the limited influence of all instruments under review upon quality improvement derives from their very low impact upon the financial situation of enterprises. Only in 16 percent of enterprises, the application of these instruments brought about price-related benefits (right to charge higher prices on account of higher quality), while income-tax relief on account of higher quality was granted to as little as 9 percent of enterprises. An exception is the light industry where 70 percent of profit was scored thanks to higher prices for higher quality output.

There is a similar picture as far as penalties for poor quality are concerned. As it turned out, the number of customer claims has shrunk in conditions of severe shortages, which makes the burden of contractual penalties less painful--the more so as enterprises often pass them on to costs.

In the light of these data, one can hardly understand the bright picture of quality, as presented by the respondents. In as many as half of the questioned enterprises, none of the discussed economic instruments influenced quality improvement, and in the remaining enterprises this influence was described as marginal. On the other hand, 74 percent of enterprises claimed no decline in quality--at a time of drastically deteriorating conditions of production.

If the latter figures were accepted as credible, then one could put forward a hypothesis that major factors stimulating quality improvement still lie outside the economic sphere. Enterprises' interest in quality improvement is reflected in such undertakings as elaboration of quality improvement programs, updating of control systems, introduction of new bonus schemes, etc. Part of these measures are no doubt of routine character, and their efficacy cannot be ascertained. One enterprise put it bluntly: "quality improvement is still nothing more than a slogan."

We asked the respondents: What would be capable of inducing a tangible improvement in quality? Out of the 54 questioned enterprises, 5 gave no answer and 4 said it is impossible under present conditions. The remaining replies can be divided into two groups. The first includes answers to such questions as we originally formulated. Enterprises in the second group seemed to answer (judging by their returns) a slightly modified question: "What would create conditions for the emergence of a possibility of attaining higher quality of production?"

Answers in the first group are concurrent: Higher quality would be enforced by competition, buyer's market, etc. Answers in the other, larger group linked the possibility of quality improvement at the provision of sufficient quantities of production supplies, sufficient supply of labor, etc.

The misinterpretation of the question by more than a half of enterprises seem to be no accident. It reflects the sad fact that the present situation of shortages and deficits and the current systemic arrangements still fail to provide economic coercion and encouragement to quality improvement. Only in few enterprises the emphasis on quality is rooted in economic thinking.

It would be hard to overlook the yawning gap between the public perception and the opinions of enterprises under review on quality. The causes of this situation cannot be traced exclusively to attempt by enterprises to spruce up their performance reports. Can it be that this reflects enterprise complacency in conditions of a monopolized and unbalanced market? How long will we have to wait before enterprises' opinions on quality can be verified by customers?

CSO: 2600/627

OFFICIAL COMMENTS ON FOREIGN DEBT, PROSPECTS FOR IMF, WORLD BANK MEMBERSHIP

Warsaw RZECZPOSPOLITA in Polish 14-15 Jan 84 p 3

[Interview with Zbigniew Karcz, director, Ministry of Finance Foreign Department, by Tomasz Bartoszewicz; date and place not given]

[Text] Question: How do you assess Poland's balance-of-payments situation?

Answer: Poland has always been an active participant in international trade, and despite our complaints of export underdevelopment there are no grounds to claim that our economy has been developing towards autarky, at least since the mid-1950's. The country's participation in international economic cooperation necessitates an active presence in the international financial market. But for both formal reasons and reasons of substance, our relations with payments zones I and II should be discussed separately.

Question: So, let's begin with the CEMA countries, or payments zone I.

Answer: The existing system of settlements among CEMA countries was born in 1963. Despite many objective limitations--e.g., to the utilization of balance-of-payments surpluses [with one partner, to be used to cover deficit with another], which incidentally is no problem to us now that we are in debt--this system can be assessed as working satisfactorily from our point of view. Its efficacy is testified by the fact that the economic downturn in Poland in 1980-82 did not result in any drastic decline in trade. Already in 1983, the record 1979 level of trade and financial settlements with socialist countries was regained, which is tantamount to the restoration of our position vis-a-vis these countries.

Question: But we are still deep in the red....

Answer: The debt is huge, but not excessive. And it is important that the structure of debt to the USSR, or the only country to which we really owe much, is very favorable to us. We receive from that country raw materials, fuels and intermediates. And finally, the debt to the Soviet Union is accompanied by quick rise in exports to that and other socialist countries, which offers a chance of balancing our trade in the future--even if we plan trade and balance-of-payments deficits for some years to come.

Question: What is the total amount of our debt to the USSR?

Answer: Towards the end of 1983, it stood at TF (transferable rouble) 3 billion plus more than \$1 billion. This was because in the worst period for our economy we received a Soviet credit denominated in convertible currencies.

Question: What is our balance-of-payments situation with other CEMA countries?

Answer: In principle, our trade with them is balanced. Surpluses or deficits appear only temporarily. Last year, for example, we had trade deficits with Czechoslovakia and the GDR, and small surpluses with the remaining member countries--to be used to finance additional imports this year.

Question: Against this background, what is the state of our financial relations with countries with which we make hard currency settlements?

Answer: Poland is not a center of international finance, and therefore our relations with those countries are closely connected with the level of trade exchanges. We were active in the international money markets in both the 1960's and the 1970's. In the 1960's, Poland had no major liabilities, and annual financial surpluses were being placed internationally. Nor had we balance-of-payments problems in the early 1970's, up to 1972. Later, decisions were taken on the utilization of the international financial markets for the purpose of accelerating the country's economic development. Till 1976, most credits were spent on the expansion of industrial potential. It was only later that foreign loans were increasingly used to finance consumption, as illustrated by annual grain and feed imports of 9 million tons at the height of the credit period.

I would like to stress that the policy of indebtedness as such is by no means wrong. But the point is that credits should promote economic growth and be so spent as to guarantee their repayment. Besides, when money is raised on international markets, account should be taken of the ratio between the level of debt and the size of exports. If this is disregarded, a situation emerges such as that of Poland towards the end of the 1970's.

When we found ourselves in so-called credit trap, we took similar measures as other debtor countries which had troubles with meeting their payments obligations. We embarked on talks with groups of creditors on debt rescheduling, while at the same time taking steps to restructure the national economy.

But it should be borne in mind that the solving of our debt problem coincided in time with socioeconomic turmoil of 1980-81. The dramatic fall in exports in 1981 was reflected in the amount of hard currency earnings--even though imports remained at a high level. This state of affairs, coupled with a general decline in economic activity, added to our balance-of-payments difficulties.

Many measures, however, brought about welcome results. Grain and feed imports were cut by two-thirds--a result of both better harvest and reduction of the level of consumption. And we managed to substantially reduce the purchases of capital equipment, thus providing maximum protection for the import of production supplies.



Question: But internal action alone will not solve the problem, the more so as the post-13 December 1981 situation is marked by highly unfavorable external conditions....

Answer: Yes. The declaration of martial law provided a chance of setting the economic matters in order and attaining quicker restoration of the balance of payments, but the major creditor countries chose to impose various sorts of restrictions. While not going into details of calculation, I can state with full responsibility that the restrictions, and in particular the reduction of the previous level of production supply imports, were an added factor weakening our export potential, to say nothing of their impact upon the population's living standard and dynamics of domestic production. These nonfinancial constraints began directly to influence the state of the country's finances, including the balance of payments, and to deepen the difficulties resulting from the economic policy of the 1970's.

Question: One way of improving the country's financial situation might be by joining the international financial institutions such as the International Monetary Fund, or the World Bank.

Answer: You are right. This is what we hoped for by formally applying in November 1981 for re-entry into these two organizations. Naturally, no one has ever cherished illusions that membership in these two institutions will automatically solve all our problems. But we have worked on the assumption that this is an ancillary factor, serving the interest of both Poland and its creditors.

Question: Entry into the IMF would entail a financial contribution. What would be its size for Poland, especially now that the membership fees were raised by 50 percent?

Answer: This is a complex problem. The size of the contribution is a subject of negotiations between an entering country and the Fund. It is calculated on the basis of the level of national income in the base year (now it is 1976 according to IMF procedures), the level of foreign trade, and a host of other factors. Some of them can be applied in respect to Poland only with great difficulty. This is the case, for example, with expressing our national income data in dollars. Taken into account in the negotiations are also comparisons with countries of similar economic potential and structure.

Question: To what countries would Poland be compared?

Answer: While not prejudging the problem, I think that Argentina and Spain have comparable economic potentials. At any rate, the matter will be negotiated between the parties concerned, so I am not in a position to declare any amount. I think it would be in the \$0.5-1.0 billion range.

Question: Can we afford this?

Answer: Yes. Remember that only 21 percent of the amount is paid in convertible currencies. The rest would be in the form of zlotys kept in a central bank account at the disposal of the IMF. And the convertible tranche would be easily regained in the form of IMF credits.

Question: The entry into the IMF would be connected with some economic rigors, wouldn't it?

Answer: I don't think they would be more stringent than those which we imposed upon ourselves. I have more than once told my IMF interlocutors that we are not afraid of the economic conditions demanded by the Fund. Restoration of financial equilibrium and reduction of budgetary deficit are the goals of the Government policy. For the second year running we achieved trade surpluses. It was no easy matter, but this is true of every program of adjustment. The major chunk of our investment expenditure is going to be spent in years to come on export production, and expansion of agriculture and mining--but further development of these sectors hinges on additional supply of credits and increased investing. Investment cutbacks would deepen the technological gap and result in fixed-asset depreciation. The Fund membership and, more generally, normalization of financial relations with all creditors, including the international financial organizations, should facilitate our access to these new factors of production.

Question: What are the benefits of joining the World Bank?

Answer: This problem is simpler on the one hand and more complex on the other. Remember that the principal goal of the World Bank is to finance projects in developing countries. But projects in other countries are not excluded. This is especially true of such areas as: farming (land improvement, grain storage, etc.), transport (road and rail networks), energy (power plant construction), or mining. The concrete projects involved feature high efficiency and give rise to so-called multiplier effect. The World Bank provides part of the funding for such projects, as well as insuring technical backup services.

Another sphere of potential benefits has to do with the right of Polish companies to carry out bank-financed projects in third countries. This is of great importance now that our opportunities for construction exports to traditional markets have shrunk.

Question: How do you assess chances for positive conclusion of membership negotiations?

Answer: I am an optimist and I see the possibility of reaching positive conclusions still in 1984.. Our entry into the two organizations would serve the interests of both Poland and its creditors. The delay is caused by political pressure and has nothing to do with operating principles of the IMF and the World Bank. Some signals indicate that major member countries are considering a revision of their position. Unless this happens, both we and our partners will be affected, and evidence will be provided of direct political interference in the activities of nonpolitical institutions which, similarly as other organizations affiliated to the UN system, are statutorily open to all countries of the world.

## FOREIGN EXCHANGE ACCOUNTS IN YUGOSLAV BANKS DISCUSSED

## Dinar Interest Decision Supported

Zagreb DANAS in Serbo-Croatian 10 Jan 84 pp 11-13

[Article by Djuro Zagorac: "The Timid Wild Animal Private Capital"]

[Text] It can be said of the amendment to the foreign exchange law, under which interest will be paid in dinars on the foreign exchange savings accounts of individuals (who reside and work permanently in Yugoslavia) beginning 1 January of this year, is a piece of "crazy wisdom."

About 4 million Yugoslavs have foreign exchange accounts in which they are saving about \$8 billion. This "hoard" has extreme importance; immense resources are easily channeled to the purpose desired, and they perform a constructive economic and social function. At the same time, in the shortage of foreign exchange these resources of individuals are cheaper for the economy than any other foreign credits. Touching the foundations of private "powers of foreign exchange" could turn out badly, could have an adverse effect on the total volume of saving. That danger in fact represents the "craziness" of the amendment of the law we mentioned, an aspect that was in fact pointed out by individual delegates in the SFRY Assembly before this provision of the law was passed. Bankers have taken into account the possible first results of the "craziness," they have prepared in advance for something like that, they have even chartered special airplanes to carry foreign exchange from abroad if savers should decide to withdraw their money in large numbers. It seems, however, that this change in conditions for savings accounts has not "shocked" anyone, that it has been accepted coolly. There was an unnecessary rush to tellers' windows on the eve of the New Year, and that because of a mistaken interpretation of the law; it had been published that nothing would change on funds in time deposits, that interest would be denominated in foreign exchange until the term of the deposit expired. Many people wanted to catch the last train, to safeguard themselves without thinking much about the actual economic effects. Those who wrongly interpreted the law are to blame for this alarm, not the news media, which made the mistake public.

## A Stronger Dinar

Banks will credit to their savers about \$700 million in interest for last year. This is a sizable foreign exchange obligation this year, an enormous

burden on the banks and on the economy. The placement of interest in foreign exchange with dinar interest in the coming year will be a definite relief, and it is here that the "wisdom" begins to replace the "craziness" we have mentioned. It cannot be reliably said to what extent this will happen. That is, there are no precise figures on how many foreign exchange savers will relinquish the right to interest in foreign exchange and how many will retain that right. This ratio will be approximately 1:3, one saver actually earns foreign exchange abroad for every three who "collect it" inside the country.

Certainly the payment of dinar interest will have quite a large effect on expenditure, fewer will keep the funds in the bank as compared to the interest denominated in foreign exchange. These resources are certainly not negligible. If the interest the last year is turned into dinars, it would be more than 100 billion. And 100 billion can certainly not flow through an overheated market without sizable disturbances of supply and demand. Even in spite of this additional "note issue," it can be said that this measure strengthens the reputation of the domestic currency, that it will diminish the private demand for foreign exchange, and this had been felt even in advance of this amendment.

The dividing up of savers into those who will be entitled to interest in foreign exchange and those who will receive dinar interest is the only ranking in the family of millions of foreign exchange savers. Nor would it be fair for them all to have the same treatment and the same terms and conditions on their savings. Whereas some actually earn the foreign exchange and carry it into the country, others obtain it within the country, by turning dinars into foreign currencies. Thus individuals in the country are taking over a portion of the business which ought to be handled by currency exchange offices. These amendments do not jeopardize that right of individuals, which to some extent they have "extorted," but rather the measures being taken are purely economic in their import: the strengthening of the dinar would eliminate the need of individuals to build up savings in foreign exchange. This distinction will also reduce the obligation to the National Bank of Yugoslavia on the basis of differences in rates of exchange, which have already reached disturbing proportions.

#### Guarantee

It is well known that we have come to experience a shortage of foreign exchange. The veins of the streams of money are overstrained, and every measure which is being taken in this area understandably arouses the interest of foreign exchange savers. In view of the number and "composition" of our foreign exchange savers, various speculations are also possible. One of them, which has been around since the time of Tito's illness, is that the state will "nationalize" the foreign exchange of individuals. There are even those who have proclaimed this classification of savers with respect to the terms and conditions for saving a step toward "nationalization."

It must be said that such forecasts are without basis. The conditions of savings accounts are being confused with the guarantee which covers savings account balances. The conditions under which savings are attracted are a



variable component in all countries in the world, depending on economic and other social developments. Monetary "games" are conducted in the world by means of interest, the movement of capital on this basis is disturbing to even the most economically stable countries in the world. The terms and conditions related to savings, from interest to other economic incentives, are always variable and are diverse, and abolishing the payment of interest in foreign exchange for a certain category of savers is only a return to the situation which we already had several years ago.

The guarantee on savings which have been taken is something quite different and separate from the terms and conditions under which savings are deposited. The government of the SFRY is the guarantor for all those who save in Yugoslav banks and the postal savings bank. No one can any longer renounce those guarantees, nor is this legally possible. Those who are frightened about their savings, who are afraid the government might deceive them, should be reminded of the time when the new Yugoslavia was created. Our revolution was a liberation war, but also a class revolution. The new Yugoslavia, however, honored all the money obligations of old Yugoslavia both toward foreign creditors and also toward its own citizens. During the war various bank notes were issued and were valid on the territory of what is now Yugoslavia: marks, lire, the Nedic dinar.... One of the first decisions of the new government was to withdraw that money and replace it with new dinars. That right was exercised by individuals who had saved during the war, and only credits by moneylenders to those without land were written off (up to a certain amount). In the postal savings bank, for example, there are even now the passbooks of prewar savers, they are waiting for those individuals to turn up one day and claim their deposit. It is certain that most of those owners were casualties during the war, but those passbooks are carefully kept, the balances and interest in them are entered regularly.

It is well known in international law that someone must guarantee obligations which have been assumed, even when a state has lost territory. We have also had situations of that kind, when the first Yugoslavia was created. The money obligations of the Austro-Hungarian monarchy toward individuals who had lived under its rule were compensated in the peace treaty.

#### Incentives

All Yugoslav citizens, within the country and abroad, are holding about \$8 billion in Yugoslav banks. It is estimated that Yugoslavs have even \$20 billion in foreign banks at the same time. Under those circumstances it is the principal task of the state, in the broadest sense of the word, to encourage individuals by economic measures to save more in our banks, not to nationalize those resources. In this area we should expect new measures, wise moves. When it was easy to obtain foreign credits, there was not even any need for us to fight for every one of our savers. Now conditions are changed, and a change of direction is inevitable. We need to remind our citizens working abroad of patriotism, to bind them with economic motivation. It is expected that those responsible in this area, especially the bankers, will move still closer to savers, and will meet their wishes. An idea has been advanced along these lines for setting up a new banking institution, an international

Yugoslav bank with headquarters in Switzerland (because of that country's banking reputation) for which additional guarantees might be issued. Private capital, it is said, is the most timid wild animal in the world. That is why it seeks safe refuges, so that the new ideas and proposals ought not to be rejected out of hand.

### "Vanished" Foreign Exchange

A certain amount of eavesdropping (and also polling) of our "foreigners" concerning the possibilities of floating a foreign exchange loan indicates that Yugoslavs abroad are firmly devoted to the country and that we are experiencing almost all difficulties together. It is difficult to guess whether such a loan would be successful and whether it is at all justified. It is a fact that those "foreigners" are angry about certain of our shortcomings and oversights which, it is clear to everyone, could have been avoided.

Many Yugoslavs employed abroad temporarily rightly point out that they have earned quite a bit of foreign exchange and brought it into the country and that it is not moral to expect them to make new sacrifices. If all the remittances of workers up to this point are totaled, it turns out that we had at our disposition more foreign exchange than envisaged by the Marshall Plan for the recovery of postwar western Europe. Where are those billions?

Much of it, there is no dispute or disagreement here, has been invested, has gone into construction. One of the greatest undertakings is that the provinces have caught up with the advanced centers, that there is no longer an essential difference between them. There were mistakes and failures in that investment mania, but negligibly little compared to the total gain. One of the greatest mistakes was certainly the neglect of exports, which is now taking revenge on us many times over.

But now that we are discussing mistaken investments, then even our "foreigners" are not infallible. Many of them in fact invested their hard-earned resources in multistory towers. Only recently when the process of more extensive return to the country has begun have savings been more optimally committed, above all to opening up new productive jobs.

### New Wealth

Had the "foreigners" and domestic planners been more active, had they paid more attention to vital issues, the supplemental capital would certainly have been spent more optimally, and we could have augmented income on that basis.

The increasing repatriation of our citizens from abroad is making it possible to correct certain mistakes and to invest resources more optimally. The greatest possibilities are afforded by programs for expansion and modernization of work organizations, but also by small industry. When we speak of small business, then we are thinking of that true small business sector engaged in production.

"The wealth of our people who are returning from abroad should not be measured by the level of their savings. It is their hands, the knowledge and experience they have acquired, that represent true wealth for this country. They can become an important driving force for a new attitude toward work," Milos Sindjic, director of the Federal Bureau of Social Planning, has observed.

Many returnees have moved in precisely that direction: they have first provided themselves a job and adequate housing, and they have left the building of "castles" for better times.

#### The Law Is Binding

The new foreign exchange law has been supplemented with certain provisions which did not exist up to now, and which apply to our individual citizens. Here are some of them:

"Except for the time of temporary employment abroad Yugoslav nationals may not have current accounts or other accounts abroad, may not possess foreign savings passbooks or cards representing money assets (novcane kartice), nor may they purchase foreign securities or borrow abroad."

One legal provision is especially important to all those returning to the country:

"Individuals employed abroad temporarily are required to bring the foreign exchange they possess abroad into the country within 90 days from the date of their definitive return to the country."

Yugoslav nationals and emigres are living on all the continents, they are being born and dying outside the country. The question of inheritance is therefore always relevant. Here is what the law provides:

"Yugoslav citizens residing in Yugoslavia who on the basis of inheritance or on some other basis acquire the right to foreign securities, coupons of foreign securities and foreign savings passbooks may collect those assets through banks authorized for foreign transactions."

One cannot live and work in the country, but save abroad. To be sure, this is an innovation in the law, but all the European countries have such a provision, and Yugoslavia was only an exception in that regard. There are those who think that the foreign exchange savings of individuals will increase when this provision of the law takes effect. Anyone who does not wish to come into conflict with the law must honor it.

## Dinar Interest Decision Criticized

Zagreb DANAS in Serbo-Croatian 10 Jan 84 pp 12-13

[Article by Ljubomir Cucic: "Circular Letter for Domestic Banks"]

[Text] At just the moment when it seemed that the federal administration would build the foreign exchange regime pertaining to individuals on a more stimulative basis that would be of greater benefit to both sides, at a moment when discussions of the future of foreign exchange savings had thinned out, when the bankers had begun even without official blessing to make moves to the advantage of private savers, the Federal Executive Council did what was least to be expected in its proposal for amendments of a portion of the Law on Foreign Exchange Transactions. After the package of unpopular measures in October of the year before last, instead of working to correct their adverse consequences, the federal government decided on a step which will discourage still more those who own foreign exchange and will repel them from domestic banks still more.

The decision to credit foreign exchange savings of Yugoslavs, except for those working abroad, with interest in dinars, not foreign exchange, will have at least two effects. We say "at least" because aside from the direct gain and the indirect loss, there are also certain other nonmaterial consequences which can be counted on. But however great those consequences may be, they are not in the foreground at present. All eyes are directed toward the calculation of how much we are actually obtaining by crediting interest on foreign exchange in dinars and how much those savings will be greater or less than the undesirable consequences. It is clear that the community will in this way save a substantial amount of foreign exchange, but also that the decision on dinar interest will further the decline of savings of foreign exchange that is already under way. One can only conclude that the proponent of the new piece of legislation is probably still hoping that the losses will not be too great. But isn't that hope only a weak justification for an immoderate step which has put a short-term interest ahead of a long-term interest?

### A Wrong Decision

Domestic banks and savings banks will this year pay interest in the amount of \$640 million to foreign exchange savers. Since the bankers do not collect interest in foreign exchange from individuals or the economy on a single type of credit, it is clear that this money can be furnished only by exports or additional borrowing abroad. By the end of the year, then, we will save at least \$640 million by crediting interest in dinars.

This money will be paid to owners of foreign exchange in dinars, but in view of the rate of exchange of currencies it will not be difficult to print the money or possibly to cover it with money obtained from interest on borrowed funds, that is, the interest which the banks charge on loans which have been granted.



At the rate of exchange of the dollar which can be anticipated this year, this will be about 100 billion dinars. It is undoubtedly easier to find dinars in that amount than the amount of foreign exchange, which is equal to two-thirds of last year's inflow of foreign exchange from tourism.

But the decline of foreign exchange savings could in just a short time nullify that gain, which perhaps is large.

If someone has foreign exchange and doesn't know what to do with it, he will decide to place it in a bank where it will bring him interest in foreign exchange. If he cannot obtain that interest in foreign exchange, he will have less interest in saving, since getting dinars for foreign exchange is about like sowing wheat and harvesting grass. The foreign exchange which according to all logic ought to be deposited in the nearest bank will remain, then, in people's pockets or in spite of the ban will be entrusted for safekeeping to banks abroad. The decision not to allow Yugoslavs living in the country to save in foreign savings banks is completely mistaken, since in actuality no one can keep track of this.

In any case one thing is certain following the decision on dinar interest: we should not expect a rise of foreign exchange savings.

Figures on the trend of foreign exchange savings balances over the last 2 years indicate how unwelcome these and similar restrictive and administrative measures are.

At the end of 1980 domestic banks had \$8 billion, but today they have \$7.11 billion. What is the reason for that drop? Undoubtedly it has been influenced by economic conditions in western Europe, a decline of the number of Yugoslavs working abroad, an ever larger number of unemployed, and so on.

But it should be said that foreign exchange savings have been dropping quite rapidly only since October 1982, when not only was the deposit introduced and restrictions placed on the sale of domestic goods for foreign exchange, but each cash payment from a foreign exchange account was also limited to \$250. Since that time foreign exchange savings have dropped in real terms between 5 and 10 percent, depending on the bank, and foreign exchange remittances are off somewhere in the neighborhood of even 30 percent.

#### Shortsighted Calculation

After this last step concerning interest, foreign exchange will more and more evade domestic banks and will probably consolidate still more their status as a reserve currency in the country. It is an old economic rule that the weaker money displaces the stronger money from circulation, and in our example that means nothing other than that foreign exchange will be hoarded at home.

Individuals might have more and more foreign exchange, but society will have less and less benefit from this. Since 1970 Yugoslavia has had two surpluses in the balance of payments, and on both occasions foreign exchange remittances

deserved most of the credit. Does the recent accelerated growth of exports signify that we no longer need them? Certainly not, but how, then, is one to explain the shortsighted calculation with dinar interest on foreign exchange savings?

Probably they are thinking of making up for this mistake by making the dinar interest on foreign exchange savings higher than the present rate of interest denominated in foreign currencies. Nothing official has been said on this as yet, but it is almost certain that we can expect them to be higher than the foreign exchange rates which have been in effect up to now. Incidentally, certain banks have already, during last year, allowed their savers to choose themselves whether they wanted a lower rate in foreign exchange or a higher rate in dinars on their foreign exchange.

On foreign exchange placed in time deposits for 1, 2 and 3 years banks have been paying 9, 11 and 12.5 percent interest, respectively, in foreign exchange, or dinar interest at rates of 12, 15 or 17 percent, respectively. Can one, then, expect precisely those rates? That is difficult to say at present, but the Association of Yugoslav Banks will soon adopt a decision on this.

At a meeting of all domestic bankers which is announced for January consideration will also be given to the results of positions taken by the governing bodies of the commercial banks on the proposed version of a self-management accord on interest rate policy, which the public was acquainted with last fall. That document also brings a number of surprises for savers, it will raise interest on dinar time deposits, consumer loans and cash loans will become more expensive (interest rates as high as 30 percent), and so on. The economy will also face higher rates of interest, which will especially hurt those who are in debt. But that is already another topic.

7045

CSO: 2800/181

GRLICKOV DISCUSSES LARGER ROLE FOR SAWPY

Zagreb DANAS in Serbo-Croatian 24 Jan 84 pp 19-22

[Interview with Aleksandar Grlickov, member of the Presidium of the Federal Conference of the SAWPY, by Jelena Lovric: "A Dialogue Is Not a Game With Democracy"; date and place not specified]

[Text] More inclined to the thoroughness of the theoretician than to the improvisation of the day-to-day pragmatist, Aleksandar Grlickov, now member of the Presidium of the Federal Conference of the SAWPY, has always put himself forward in public with well-chosen words. How do our current developments look from that position, which is a bit aloof?

[Question] We began the interview--indeed how otherwise could it have been--with the economic situation. Economic stabilization and a way out of the accumulated economic difficulties have for several years now been the focus of political action. Nevertheless, we are not acting effectively, one gets the impression that we have become captives of numerous resolutions, that we are expending torrents of words in vain, and that in the actual streams of life much of this is changing too slowly. How is that? Perhaps our words or the solutions we have been offering are not the right ones?

[Answer] The hyperproduction of resolutions is the reality of our method of political action. Their inflationary output is counterproductive, the words lose their weight. The cumbersomeness of the resolutions and their repetition at numerous places in our institutionalized political life have so oversaturated not only the working people and citizens, but also their creators, so that both have become uninterested and passive. We have to free ourselves of this method of political activity. Which leads to the demand that we concern ourselves less with the production of resolutions and more with the effort to implement them. We have an easier time agreeing on general positions and commitments--though even that does not go easily (the work on the long-range stabilization program took more than 2 years)--and it is very difficult for us to state what has been agreed on specifically in a project for execution.

That is actually what is happening to us with the economic stabilization program. There is a play of differing ethnic interests and differing interests of working people employed in different branches and sectors of production. This is an objective situation which must be overcome by reaching an

understanding, but on the foundations of the conceptual project it has been adopted. If its interpretation begins to be politicized and ideologized on the basis of mathematical calculations of who is gaining and who is losing, that is the beginning of the erosion of the long-range economic stabilization program and of our falling into a pragmatism which as a rule leads to bureaucratic methods and encourages the bureaucratic forces to emerge continually as "saviors." That is why the basic thing today and tomorrow is for the conceptual project of the long-range economic stabilization program to be turned into a consistent and synchronized project for execution as soon as possible, into specific solutions. If that effort dies out, the bureaucracy comes on the scene as savior with its state-interventionist measures.

[Question] The long-range economic stabilization program is the way out which has been officially accepted. However, recently people have spoken ever more frequently about resistance to its implementation. No one at present is saying exactly where that resistance is coming from. Everyone is dissatisfied, but there are few who are dissatisfied with themselves.

[Answer] Certainly there is resistance. The strategic conception has not been followed by all-inclusive tactical solutions and the means of carrying them out. The sequence in which the moves are to be made--perhaps I am wrong--has still not been synchronized, and often it is even incomplete. The diversity of republic interests, which I consider legitimate, ought not to have the effect that the project for execution is not drawn up consistently, with a single static computation so that it would be stable and reliable. The national interest is still being formulated at the top of state-political structures on the basis of a calculation of who is getting what and who is losing what. It is thus impossible to build the economic system and its mechanisms (the foreign exchange system, the price system, the system of credit and monetary policy ...). Under those conditions the working class is less and less the simultaneous protagonist of the class interest and the interest of the nationality, and it loses communication with segments of the working class in the other republics and provinces. It is thereby exerting less and less influence on the self-reproduction of self-management.

Nor am I neglecting the contradictions within the direct producers themselves, whose position is being defined very subjectivistically under the strong influence of state-administrative measures. Some want to preserve what has been gained, others want to improve their position, so that the resistance is dual.

Indeed there will continue to be varied resistance, since it is obvious that everyone cannot now get everything from this program, some will and some will not get something immediately, but in the long run everyone will gain, everyone extricating himself from inflation and from the stagnation of production and labor productivity. Of course, fair evaluation of labor, which is possible on economic foundations, and that means on the basis of the operation of economic laws on the market, is not a key to all the locks of complicated life and of the economy. A socialist society has a particular need for the planning of socioeconomic development. Just as we are not unfamiliar with the social consequences of development based exclusively on planning



(especially if it is also centralist planning), especially statist and group-ownership planning, so the consequences of a development based exclusively on the free operation of economic laws are also well known.

[Question] Our ramified sociopolitical mechanism has not become sufficiently involved in the stabilization effort. The League of Communists has taken over a portion of the tasks which otherwise are performed by other sociopolitical organizations. Has the party taken up the work of others because those who should have done it are not doing it, cannot do it, do not know how to do it, or did it actually suit the party to hold all the strings in its own hands?

[Answer] The League of Communists is not moving in the direction of any important strategic commitments of its own, or, perhaps it is more accurate to say, it is moving very slowly toward their accomplishment. I am referring here above all to the fact that the League of Communists is not carrying out the strategy of its change to become the leading political-ideological force, but the layers of command and direction are still quite strong, nor is it maintaining a satisfactory pace in its own democratization, but is shutting itself off by operating through forums, it is tolerating the formation of groups of various kinds, obtrusion and usurpation by individuals and various groups, or it is not offering public and unambiguous resistance to this, it is involving itself very little, almost unnoticeably, in the Socialist Alliance where party members could carry on a direct dialogue with the working people and citizens and harmonize the pluralism of self-managing interests, guide the interests of the working class, the other laboring classes and social strata of the population into a social synthesis, it is not making a break with the noticeable negative selection and various monopolies in personnel policy.... These are all recurrences of the way it was, and they do not result from others not being able or willing to do their part. Party members are not the only ones interested in the country's successful development and future, but this is also a vital concern of the rest of the working people and citizens whose orientation is socialist self-management and simply of all honest patriots. The League of Communists and its bodies ought to make a critical assessment of why they are not carrying out their own strategy, so that then a distinction could be made from resistance within itself and the resistance of opponents. These matters do not brook any further delay. We live in difficult times, and we must guarantee maximum homogeneity of society.

[Question] Along with homogenization, invigoration also seems to be the magic formula for the moment. In some sociopolitical organizations, in the trade unions, for example, a certain liveliness has been noted recently, a search for its own place, that is, an effort to take up that position in real life which the sociopolitical system intended for it. Although it is acknowledged ever more frequently that we can be pulled out of our present troubles only by the broad commitment of all, the Socialist Alliance is still a section of the League of Communists. And instead of the creation of a broader popular front, we have a galloping growth of passive resistance in various forms.

[Answer] In practice there is the sectarian and deprecating attitude of party members and their forums toward the social role of the Socialist Alliance, which is defined in the new constitution as the front of all the socialist and self-management forces within which the differing interests of the working people and citizens are reconciled in a democratic way. This attitude makes of it a transmission belt. There are at least two bad consequences of that role of the Socialist Alliance. It jeopardizes the functioning of the political system and of the delegate system within it, and the League of Communists strives itself, monopolistically, to resolve the problems in society, instead of doing this democratically, together with all the socialist self-management forces in society, within the framework of the Socialist Alliance.

There are also other adverse consequences for the LCY: its own ability to relate itself in a democratic way to the broadest socialist forces in society is diminished, which in turn essentially diminishes its ability to set the working masses and indeed itself in motion to achieve the long-range and day-to-day targets and goals. The practical consequences of all this are visible, and it takes no great perspicacity to spot the cause-and-effect relations which sprout and support formalism, inertia, politicization of ethnic interests, and in certain milieux, including the working class, the other laboring classes and social strata, and young people, there is also—I agree with you—passive resistance. It is a great luxury for the leading political party to permit the possibility of such an atmosphere penetrating the social consciousness to any depth.

The Socialist Alliance must equip itself for the role assigned it by the constitution—that battle must be won. It must equip itself in terms of personnel, from chapters, local communities to the Federation. It must not be a depot for personnel on waiting status. The most able people, communists and noncommunists, all those who are oriented toward socialism and self-management, must be in it. The present vertical structure of personnel in the Socialist Alliance consists only of party members, with few exceptions. If it is to perform its constitutional role, those who are not members of the LC must also be members of its forums. What would happen if the noncommunists should represent between 30 and 50 percent in those forums, depending on the conditions and possibilities? Not only would nothing bad happen, but this is in fact necessary if we want the Socialist Alliance to be what it ought to be, and not just an ordinary, usually anemic, transmission belt.

[Question] There is no place more suitable than the Socialist Alliance for conducting a democratic dialogue. But one can still hear differing opinions among people in politics and those with influence concerning dialogue, and therefore indeed concerning democracy as well.

[Answer] Monopoly of the truth has down through human experience always stood in opposition to dialogue as a method of resolving objective contradictions. In committing ourselves to socialist self-management, with its democratic and humanist content, the democratic and equal reconciliation of the pluralism of interest in self-management, both as a goal and also as daily practice, we have actually built dialogue into the heart of our political

system as an instrument for reconciling differing interests. Thus dialogue is not some entertainment or game with democracy, but the backbone of the functioning of our political system. I personally am not dissatisfied with what we have achieved recently. In a short time we have made a strong breakthrough in spite of the resistance, also strong, from those who prefer and find it more comfortable to issue commands and to maintain a monopoly over the truth from those positions.

As for the necessity of dialogue, I am not certain that differing opinions still exist. In part those differences were the result of a misunderstanding of the essence of our political system, but there was also resistance on the part of some people to allowing a monopoly of the truth to slip from their hands, since in that way it is easier to rule people and it frustrates the process of their liberation in both the historical and the concrete senses. Unfortunately for those forces, that process has been initiated, and it is unstoppable.

In the reconciliation of the pluralism of interests of self-management there is a need to cultivate the spirit and usages of dialogue, which presupposes tolerance, respect for more valid arguments, and restraint from name-calling and denigration.... The League of Communists, both as a whole and as individuals, must be at the head of this process, in performance of that obligation contained in the program and the constitution. Falling short of this, not only will it lose what it has painfully gained in historical and concrete terms, but it will also open up political space to conservative forces in society, but also within itself. This is not an academic hypothesis, we encounter it in life. I am referring to an assault of conservative ideologies of nationalistic, religious, dogmatic or statist origin.

[Question] It has not been long since it was stated in a rather important place that our goal is not any sort of bourgeois democracy, but a society of associated workers. As far as the goal is concerned, that is true, but can such a society be built at all without democracy, indeed without those values which the workers have won already even in the capitalist societies?

[Answer] The necessary agreement has been reached on democracy, socialist and self-management democracy, in the LCY, though it did come rather slowly, there was meandering, various insinuations, and indeed suspicion. Democracy (conceived as human freedoms, individual and collective) is the result of class struggle through the history of human experience since the bourgeois revolution, but it is not the bourgeoisie's gift to the working class. The conclusion normally follows from this that socialist society, following the triumph of the socialist revolution, must acknowledge the results of those struggles of the working class, the other laboring classes and social strata, and must take a historical step by developing democracy in the economic sphere, where capitalism, because of the capital relationship, is objectively limited. Socialist societies cannot and must not suspend the democratic achievements of the working class in bourgeois society or postpone them as ultimate goals of socialism. We have adopted this as our program, and there is not much room for it to be interpreted in a distorted way.

Certainly it is not enough just to desire it, but this has to be achieved in day-to-day political practice, and here there are problems both because of the lag in development of socialist self-management democracy and also because of the chronic conflict with bureaucratic-statist forces, which are checking that process and slowing it down. It must be inscribed on our banner that there is no socialism without democracy, nor democracy without socialism.

All those who find that banner burdensome must part ways from us or we from them. I am referring to various protagonists of tendencies of bureaucracy, sectarianism, usurpation and other types of monopoly. That puts the LCY, for all its wanderings and wrong turns, on the road of the progressive development of the historical process of socialism. That is our historical contribution to the working class movement in the world. We have overcome all the crises so far very successfully by moving the boundaries of democracy, by democratizing political and economic life. There are no persuasive reasons why we should not also overcome the present crisis in the same way.

[Question] There are no reasons, but there are such possibilities, indeed even tendencies. Even in the case of responsibility, for example, everything is clear in principle, there are no persuasive reasons for us to behave irresponsibly, but it is still an indisputable fact that in this area there has been almost no advance beyond the statement of intention.

[Answer] That is true, responsibility is still being spoken about in generalities, and the same criteria are not being applied to everyone. I would not say that there is no concrete struggle to bring irresponsible behaviors to account in concrete terms, but all of this is still not satisfactory. The conception of accountability for work and the attitude toward obligations in the workplace are disturbing. We must first fight for a radical change of social consciousness concerning responsibility, and that applies to everyone, from the highest leaders to every workingman.

The calling of the roll being insisted on is a mechanism for enhancing responsibility, but not the basic one. There are also things to be done and built into the political system itself, into the electoral system so as to ensure the direct accountability of the elected official to his own delegate constituency; the delegate constituency must elect, not just vote, which means that there have to be more candidates than one for every place from the lowest to the highest; the electorate must monitor the activity and positions taken by its delegate. It is not difficult to grasp that there is a difference in position between those who have been elected and those who are nominees of various closed bodies, of individuals and informal groups. They have a differing attitude toward accountability: everyone feels himself accountable to whoever chose him. That is why we speak about negative selection, which has been and is a characteristic of personnel policy. But we need only to respect and implement in practice those mechanisms which exist, which are democratic, for election to various positions of leadership in all fields and at all levels of the life of society. We rightly say that this is a time for the most able, but also the most industrious, the most moral, the most conscientious and the most responsible people. The LCY must apply all its force



to create the conditions, both legal and normative, it must create the political atmosphere which will make it possible to realize those desires.

The time is coming for the new generations. If they are to lead the revolution, there is also a need to elect among them not only the most able--that ought to be clearly self-evident--but also the most honest, moral people, honorable, altogether conscientious, complete personalities, and there must be an open and public effort to frustrate the conception and practice of the profitability of belonging to a group or to powerful individuals, since loyal subjects have never been the bearers of progress at any time in human experience. I do not know why they would be today in our case.

A renewal of personnel in the vertical direction of society is seriously under way. But the new generations who have come onto the political scene not only are not yet dominant at the top places of leadership, but there we are evidently lagging behind in their representation. All three active generations must be in all bodies of leadership at every moment and at all levels so as to combine their knowledge, energy and experience.

[Question] Where is the balance between the reflection that we have a kind of manhunt against leaders taking place and the attitude that nothing of any significance can be changed? Recently, that is, the leaders have uttered to us so many critical remarks about themselves, that it almost appears that our bodies of leadership are the weakest point.

[Answer] I do not regard politics as an occupation, one should not make his living from it throughout his life. But those who want to engage in it occasionally or for a somewhat longer period have to know what has happened in the past, what is truly happening in the present, and what sort of future they are preparing with their programmatic and concrete decisions. They have to be creative thinkers with a high sense of reality. Certainly we should not expect politicians to know everything, not even if they are thinkers. This is simply impossible, but still they must know how to take advantage of the results of scientific research in all fields of the life of society. The ability to link science to politics also presupposes recognition of the independence and autonomy of scientific research. That is why it is not a matter of indifference to a country and its social events whether the politicians are creative thinkers or exclusively political pragmatists. They have to be both. If they are only pragmatists, there is a great danger of politics being conceived as some kind of a power game, which naturally leads to the game with acquired power, which comes into conflict with objective social processes, needs and necessities in the process of development. It is the pragmatists who usually conceive politics as playing for power and playing with power. Is there any need at all to say that there is no room whatsoever for this in a self-managing society.

As for the manhunt against leaders, it is true that this is taking place. It is across the board, and to that extent it is also irresponsible. It is not true that all leaders at all levels and throughout our entire social structure are incompetent, immoral and people who abuse their position. Changes are inevitable, but not in the form of a manhunt. The departure must be

dignified, but there are cases when that treatment is departed from with good reason.

[Question] Isn't what we are referring to as a manhunt against leaders actually a kind of expression of dissatisfaction, since the changes have been going too slowly? One sociologist recently said that even when it thinks about the people's dissatisfaction, politics mainly concerns itself with how to control it, that is, how to prevent it from being expressed, rather than striving to obtain some benefit from that dissatisfaction, it does not know how to turn that negative charge into positive action.

[Answer] Under the conditions of the economic crisis and its social and moral consequences dissatisfaction is something which is taken for granted. Our political structures and our news media, each in its own way, are reporting on this. Thus efforts are being made to go out to meet it, removing both its causes and also its consequences. Whether we are always successful in this is another question. It is important that great efforts be made to reduce people's troubles....

[Question] But sometimes there is also behavior that seems to have been inspired by the policy of "the worse it is, the better it is."

[Answer] There are such people. But they do not want us to find a way out of the difficulties on the foundations of socialist self-management, but in some other way, through the policy of a "firm hand," for example. It is, of course, the task of every politics to control dissatisfaction, since the most tranquil possible sociopolitical atmosphere is indispensable to a successful way out of difficulties. If and when a government begins to go down into the street--there will be neither the conditions nor the opportunities for the positive segments of dissatisfaction to be directed toward economic stabilization on the foundations of socialist self-management, in general in the direction of socioeconomic and political-social stability and security. The world will emerge from the crisis, and we as well, but the most essential thing for us is the manner in which this is done and the way that is taken.

There are untold consequences for us ourselves unless we do this by strengthening self-management, rather than by returning to administrative-bureaucratic methods. We are a crown witness to the effect that a different development of socialism is also possible in practice. If we ourselves buckle under to that--think of the political capital we will lose, capital we have been building for decades.

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7 MARCH 1984